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ABSTRACT

The Ford Policy Forum is an integral part of the annual symposium of the Forum for the Future of Higher Education. The Forum studies key economic issues likely to influence the quality and performance of colleges and universities. This publication contains the work of the Ford Policy Forum Scholars of 2001 for the annual symposium. In early 1991, before recession was a certainty, the focus for the fall meeting was narrowed to the possible effects of the anticipated depression on higher education. By the time of publication, that prediction had come true. There are four papers: (1) "Introduction" (Michael McPherson and Morton Owen Schapiro); (2) "Build Your Boat Before the Flood: Contingency Planning in Higher Education" (Craig Aase and Gary Krueger); (3) "Coping with Recession: Public Policy, Economic Downturns, and Higher Education" (Patrick Callan); and (4) "Staying on the Island: Higher Education and Reality Politics" (Clayton Spencer). (SLD)

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FORD POLICY FORUM 2002

EXPLORING THE ECONOMICS OF HIGHER EDUCATION

ED 469 031

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The Ford Policy Forum

The Ford Policy Forum studies key economic issues affecting higher education and is designed to develop policy recommendations and initiatives. The Ford Policy Forum is sponsored by the Ford Foundation and is chaired by Michael McPherson, president of Macalester College, and Morton Owen Schapiro, president of Williams College.

About the Forum

The Forum for the Future of Higher Education is a community of academic leaders and scholars from across the country who explore new thinking in higher education. The Forum facilitates shared inquiry and collaboration on issues likely to influence the future of higher education, primarily in economics and finance, structure and strategy, and technology and learning. The Forum sponsors and creates research, presents scholarship at annual Aspen symposia, and disseminates findings throughout higher education. The Forum is an independent nonprofit organization resident at MIT. Previously, the Forum was resident at Yale, Stanford, and Columbia universities.

About NACUBO

For more than three decades, the National Association of College and University Business Officers (NACUBO) has been and continues to be the preeminent association for those involved in the leadership, management, and administration of higher education. NACUBO seeks in its mission to anticipate issues affecting higher education and to promote institutional effectiveness and exceptional business management practices. NACUBO members are the chief administrative and financial officers at more than 2,100 colleges and universities.

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FORD POLICY FORUM

EXPLORING THE ECONOMICS OF HIGHER EDUCATION

3 Introduction
Michael McPherson and Morton Owen Schapiro

9 Build Your Boat Before the Flood: Contingency Planning in Higher Education
Craig Aase and Gary Krueger

19 Coping with Recession: Public Policy, Economic Downturns, and Higher Education
Patrick Callan

37 Staying on the Island: Higher Education and Reality Politics
Clayton Spencer

Ford Policy Forum Co-Chairs

Michael S. McPherson
President
Macalester College
mcpherson@macalester.edu

Morton Owen Schapiro
President
Williams College
mschapiro@williams.edu

Maureen E. Devlin
Editor

Joel W. Meyerson
Director
jmeyerson@edforum.org

Maureen E. Devlin
Associate Director
mdevlin@edforum.org

Forum for the Future of Higher Education
MIT, E-48
238 Main Street, Suite 402
Cambridge, MA 02142

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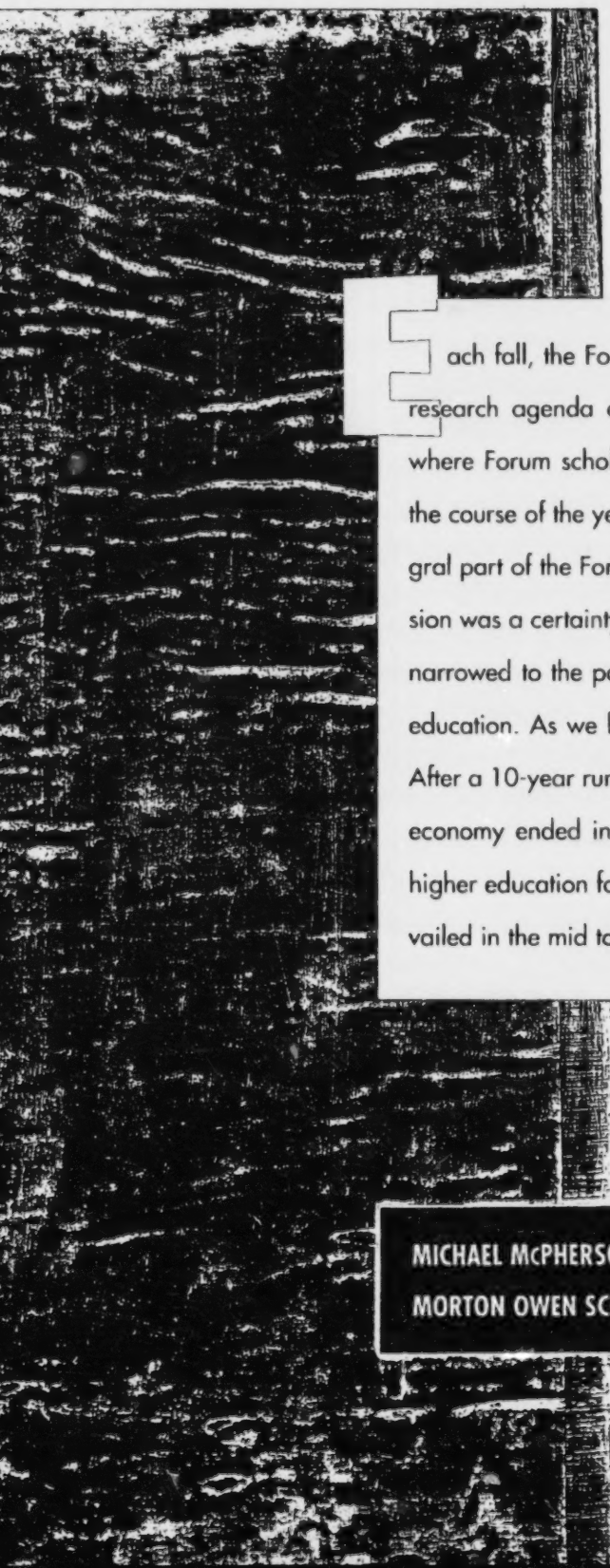


INTRODUCTION

Each fall, the Forum for the Future of Higher Education culminates its research agenda during its annual symposium at the Aspen Institute, where Forum scholars present papers they have worked on throughout the course of the year. The Ford Policy Forum, which we chair, is an integral part of the Forum's annual symposium. In early 2001, before recession was a certainty, the focus for the fall meeting of the Ford Forum was narrowed to the possible effects of the anticipated depression in higher education. As we know too well today, that prediction has come to be. After a 10-year run, the longest expansion in the history of the American economy ended in early 2001. The nation is now in a recession, and higher education faces a very different environment from that which prevailed in the mid to late 1990s.

MICHAEL McPHERSON — Macalester College
MORTON OWEN SCHAPIRO — Williams College

Rare is the institution whose finances are not sensitive to the business cycles of the nation's economy. In the current economic environment, the need for contingency planning is clear.

The Ford Policy Forum studies key economic issues likely to influence the quality and performance of colleges and universities. It is designed to facilitate informed discussion and to develop policy recommendations and initiatives. In an effort to assess the effects of a recession on colleges and universities, several courses of action institutions might consider were discussed at our fall symposium. History played an important role in the deliberations, and the recessions of the early 1980s and early 1990s were studied to glean insights into how campus leaders might best cope with the effects of today's recession.

Several perspectives were brought to bear on the issues. First, Craig Aase and Gary Krueger, chief financial officer and economics professor, respectively, at Macalester College, offered a case study of how their campus engaged in a budget and planning exercise to prepare for an institutional response to a recession should one occur. Second, Patrick Callan, president of the National Center for Public Policy and Higher Education, assessed the ramifications of recession from the state level. Given that primary responsibility for education in the United States lies with each of the 50 states, the effect of state budgeting policies and priorities on higher education is profound. Third, Clayton Spencer, associate vice president for higher education policy at Harvard University, discussed the national political context in which higher education must compete for diminishing revenues and attention in a time of recession and extremely limited focus on domestic issues other than homeland security and the economy.

The work of the 2001 Ford Forum scholars appears in this volume and is briefly summarized below. Additionally, we offer our analysis and perspective as presidents working to guide institutions through the current recession in as positive a manner as is realistically possible.

AN INSTITUTIONAL CASE STUDY

Rare is the institution whose finances are not sensitive to the business cycles of the nation's economy. In the current economic environment, the need for contingency planning is clear. Craig Aase and Gary Krueger began to develop a financial crisis plan for Macalester College in the summer of 2000, well before recession was a given. To capture the effects of a recession on the college's finances, they analyzed 25 years of Macalester's financial data to assess the relationship of institutional revenues—endowment, tuition and fees, and gifts—to the nation's gross domestic product (GDP) and the level of the Dow Jones Industrial Average. Their work focused largely on the effects of GDP and the Dow during the recessions of the early 1980s and early 1990s and enabled them to forecast the college's net revenues based on various recession scenarios.

Macalester's standing Long Range Planning Committee, chaired by Krueger, was charged with developing a plan to help the college make difficult choices in the event a recession should come to pass. Working with a model estimating a 10-percent reduction in revenues within four years, the committee employed an inclusive, collaborative process to develop strategies to address the shortfall. Following much discussion, a consensus emerged around a set of measures related to salaries, program budgets, and financial aid, among others. Specific levels were agreed upon for each of the measures that, when applied, fully offset the projected 10-percent revenue decrease.

Aase and Krueger emphasize that the real value of this planning exercise was that it helped raise consciousness

among faculty and staff about possible budget cuts should the economy render them necessary. Absent pressure for immediate action, the groundwork for making difficult choices was laid while still retaining the fabric of the college community.

STATE POLICIES AND PRIORITIES

Patrick Callan assesses the effects on higher education of a recession from the perspective of state budgetary structures. Unlike any other major developed country, where centralized controls prevail, in the United States responsibility for education lies with each of the 50 states. Public higher education must compete with other state services for its share of available funds. Yet one analysis, which was prepared in 1998 and did not account for a recession, projects that by 2006 programmatic commitments will exceed revenues in 39 states. These "structural deficits" ranged from .1 percent to 18 percent across the states.

Historical patterns suggest that funding for higher education is particularly vulnerable in the current recession, as key state officials tend to view colleges and universities as more fiscally and programmatically flexible than most state agencies, whose programs often have relatively fixed spending levels. Further, the political popularity of the K-12 sector today far exceeds that of higher education. Another key factor affecting higher education's financial health is growing enrollment demand, estimated to increase some 20 percent between 1999 and 2011.

The good news is that the 1990s were the best of times for public higher education, as funding increased at rates that exceeded enrollment growth and inflation. Public colleges and universities entered the new millennium in strong financial condition. Yet, even without major economic dislocation, extraordinary effort will be required on the part of states and institutions to meet the needs of the incoming generation of college and university students, the most racially and ethnically diverse—and the poorest in terms of financial resources—ever to seek higher education.

THE NATIONAL POLITICAL SCENE

Clayton Spencer discusses today's national political context for higher education. Consistent with previous surveys, recent public opinion polls show that education is a top domestic policy concern, now cited after terrorism and the economy. Despite these results, *higher* education faces a challenging political context in the coming years based upon a number of factors. First, America's war on terrorism has subordinated all domestic policy issues with the possible exception of the economy. Second, the federal discretionary budget is being squeezed by a number of forces including the recession, the expense of the war and security at home, and massive tax cuts. These economic pressures affect revenue sources for all institutions, forcing steeper tuition increases than in recent years at the same time that the political system is deeply skeptical about the cost of higher education. The net result is to render higher education more politically suspect precisely when competition for scarce domestic federal resources is significantly more intense.

Higher education faces competition not only from domestic priorities other than education, but also from the emphasis within education on the K-12 agenda. The overwhelming concern with K-12 issues threatens higher education in two basic ways. First, in today's crowded legislative agenda, it is difficult for higher education to claim the attention of lawmakers. Second, higher education risks getting the wrong kind of attention: The policy concerns dominating elementary and secondary education—largely objective accountability measures to judge student achievement—are emphatically not those that have animated federal higher education policy since World War II.

Spencer outlines a number of approaches to encourage and support sound federal higher education policy making. She advocates pursuit of finite and focused goals, including most importantly that of ensuring access by removing the financial barriers that prevent low-income citizens from enrolling in our nation's colleges and universities.

PRESIDENTIAL PERSPECTIVES

We have studied the economics of higher education for many years and have collaborated on much of our research and writing. We began our careers as economists, and our work reflects that perspective. Now, however, we are presidents, not professors, and thus we have a different vantage point from which to consider institutional and economic issues.

Expenses

In the past, writing as economists, we criticized the prevailing institutional response to the recessions of the early 1980s and early 1990s, namely, to defer maintenance and cut library expenditures. Across the board—in public and private institutions, liberal arts colleges, comprehensive universities, and research universities—the components of the operating budget that bore the brunt of those recessions were operations and maintenance and the library. We saw those cuts as the easy way out; despite their long-term consequences, they were unlikely to generate an uproar on campus—as would faculty salary freezes, staff layoffs, or cutbacks in instruction. Today, as college presidents, we see the merits of this approach, particularly if it is backed by a sound long-range plan such as that undertaken at Macalester. The political value, too, of warding off faculty and student protests should not be underestimated. Depending on the president's agenda for the institution, it may be important to preserve political capital to accomplish other, broader goals, such as refocusing on a core curriculum or encouraging new forms of pedagogy.

In terms of the capital budget, the recession of the early 1990s was reflected by a striking, precipitous decline in capital expenditures. Once again, we opined that cutting the capital budget was an easy way out. In retrospect, though—and with our more recent perspective as college presidents—it could be that a short-term drop in the capital budget was the right course of action. Campus building did, indeed, resurge following the drought of the early 1990s.

Revenues

By far, the revenue source most adversely affected by prior recessions has been state operating subsidies. The states today are in terrible shape, with a cumulative budgetary shortfall of approximately $50 billion early in 2002. Based on total expected state revenues of $500 billion, the shortfall is 10 percent. Clearly, the most vulnerable institutions are state colleges and universities, where budget cuts are already wreaking havoc. It is true that public institutions have privatized to some extent in that their tuition revenues have risen from an average of 15 percent in the mid-1980s to 25 percent of total revenues today. However, 25 percent is still quite low compared with the more typical 70 to 75 percent of total revenues that tuition represents for many private colleges and some universities. Presidents of public institutions face an enormous and difficult task in these days of recession. James Duderstadt, president of the University of Michigan during that state's difficult economic times from the mid-1980s to the mid-1990s, summed up the situation well when he said that while he was president, the University of Michigan went from being state supported, to state assisted, and finally to state located as Michigan's tuition dependency increased dramatically.

To make matters worse, although it wasn't of great significance during times of tremendous economic growth, the percentage of state appropriations spent on higher education has declined over the last decade as infrastructure, health care, prisons, and K–12 have gained. With a shrinking pie, the smaller percentage translates to cuts in appropriations.

Additional revenue sources affected by recession are annual giving and endowments. The evidence indicates that philanthropy declines during recessions, and certainly colleges and universities experienced a significant decline after September 11 compared with other nonprofit organizations, at least for a couple months. In this climate, presidents need to consider questions such as whether to delay campaigns or to increase their endowment spending rates.

Another revenue source is government grants and contracts, which for research universities represent 20 and 30 percent of total revenues for public and private institutions, respectively. Despite the heavy lobbying and often loud complaining, the data show that federal grants and contracts are not very much affected by the business cycle. Thus, we expect that this source of revenues for most research universities will not be seriously affected.

...the tension between need-based and merit aid...will be one of the primary and fundamental issues arising from the effects of a recession in higher education.

Tuition

The significance of tuition should not be underestimated. For private institutions, tuition is the key to managing revenues. Fifty-five percent of all revenue at the average private research university comes from tuition; at the average private liberal arts college, that figure is 75 percent. Tuition revenues depend on three factors: the number of students, the sticker price, and institutional discounts off that sticker price.

As for numbers, the demographics bode well. The dramatic overall increase in college enrollment expected over the next several years, however, obscures regional differences. In California, for example, the growth from 2000 to 2010 in the number of high school graduates is expected to be 22 percent; in Massachusetts, 11 percent; whereas in Ohio, growth is projected to be flat, or zero percent. The numbers are affected by the enrollment rate as well, which at this point is roughly 67 percent; two-thirds of high school graduates enroll in some college or university within 12 months of graduating from high school. Economists and other observers expect that this rate will not be greatly affected by the recession, even if it turns out to be deeper and more prolonged than most people now anticipate. This view is based on the fact that the economic return to college attendance is at record levels now, and the opportunity costs of attending college have declined because well-paying jobs are scarcer for high school graduates.

With regard to sticker price, recessions exert downward pressure from the public as incomes shrink and upward pressure from within the institution as other revenue sources decline. For expensive, selective institutions with unmet demand—that is, long lines of students trying to get in—sticker price generally is keyed to the income levels of the top 5 percent of the population, beginning at about $155,000, above which students usually do not qualify for need-based aid. During the recessions of the early 1980s and early 1990s, this group fared relatively well—since 1980, the percentage of real disposable income allocated to higher education by the top 5-percent group has not changed significantly. Thus, we do not believe that sticker price is going to be significantly affected by recession, at least for selective institutions.

What will be affected is the neediness of the students. As neediness rises, the discount between sticker price and net tuition revenues rises as well. Many institutions attempt to ameliorate their discount through the strategic award of aid packages and at the same time compete for top students with merit aid. The combination of these strategies heightens the tension between need-based and merit aid. This tension and how presidents and institutions address it will be one of the primary and fundamental issues arising from the effects of a recession in higher education. Where they are still practiced, need-blind admissions and full funding of need are cherished values. The commitment to these val-

ues among alumni, faculty, students, and staff often runs deep; as a result, it can be quite painful when financial exigencies force the consideration of alternative approaches to admissions and financial aid.

...minimal budget cuts year after year are demoralizing and bad for the institution. If possible, target a reduction in the base budget that you believe will be adequate to allow return to a growth pattern.

CONCLUSION

Our attempt to help guide institutions through the current recession should not be interpreted to mean that we are predicting a long and deep recession. We can't predict the business cycle. We do urge, though, that if a period of stringency is expected, campus leaders prepare for it.

At the local level, we suggest that first you do everything you can to anticipate challenges by preparing estimates of likely impacts on your institution and by devoting serious thought to contingency plans based on various scenarios. Second, educating your community is critical. Talks with faculty and staff groups about possible scenarios can be enormously valuable, both to mobilize community resources to find solutions and to cultivate buy-in for the direction ultimately chosen. Finally, we believe that minimal budget cuts year after year are demoralizing and bad for the institution. If possible, target a reduction in the base budget that you believe will be adequate to allow return to a growth pattern. In that way, the institution absorbs the financial blow early on and can begin to move forward in a positive way as soon as is realistically possible.

Without question, hard economic times test institutional values and priorities as they force difficult decisions and trade-offs. A key task for campus leaders is to clearly identify policy objectives and goals, and jointly support them at the institutional, state, and federal levels. In light of higher education's role today as the gateway to full participation in economic and civic life in America, the obligation to maintain and enhance college opportunity for all our citizens regardless of their income is paramount. By planning ahead and working together, colleges and universities can best help their institutions and their students weather the new depression in higher education.

Michael McPherson and Morton Owen Schapiro are co-chairs of the Ford Policy Forum. Michael McPherson is president of Macalester College. Morton Owen Schapiro is president of Williams College. They are authors of numerous books and articles and co-authors of two books, *Keeping College Affordable* (1991) and *The Student Aid Game: Meeting Need and Rewarding Talent in American Higher Education* (1998).

BUILD YOUR BOAT BEFORE THE FLOOD

Contingency Planning in Higher Education

INTRODUCTION

Macalester College is in many ways a typical national liberal arts college, with high fixed operating costs in the form of tenured faculty, a well-developed and functional shared governance structure, reputational concerns that are sensitive to campus morale, and a recent history of prosperity. Macalester is, on the other hand, atypical in its revenue stream, with 50 percent of operating revenues coming from net student tuition and fees (compared with 70 to 75 percent for many private colleges), 40 percent from endowment spending (twice the typical amount for private colleges), and 10 percent from all other sources including gifts. We have also had an unusual financial history, with significant ups and a few downs in our financial circumstances.

One such revenue shock occurred in the summer of 1997, when Macalester College received notice that a $4 million stream of income, out of a $40 million net operating budget, would terminate by year's end as a result of a dividend cut. The administration respond-

CRAIG AASE and GARY KRUEGER □ **Macalester College**

The president's goal was to develop and put in place a financial crisis plan *before* a crisis materialized that would serve in a manner analogous to an evacuation plan in the case of a fire, flood, or other emergency.

ed quickly. Convening the senior staff, the appointed committee for budget implementation (the Task Force on Budget), and the standing committee with responsibility for long-range planning (LRP), the president and vice president for administration developed a plan to repair the financial damage. Fortunately, this revenue stream had been used primarily for capital projects and had not been placed in the operating budget. Capital projects were halted, growth in faculty and staff salaries was held to the rate of inflation, and a short-term transfer was made from the endowment to smooth income flows until the budget was in balance.

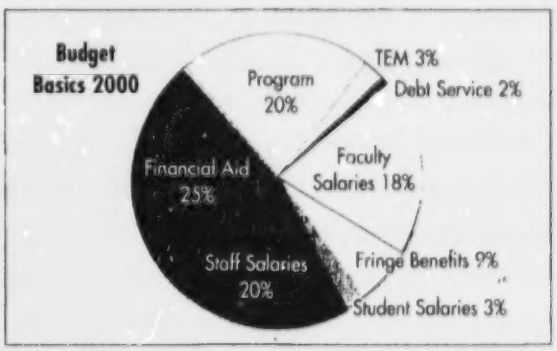
By 2000, the effects of the one-time shock to Macalester's income were mostly over, and a growing economy was boosting returns from the endowment and alumni giving and reducing financial aid expenditures—all of which improved the college's finances. Nevertheless, the memory of the crisis of 1997, as well as the fact that we were forced to react to events on a more or less ad hoc basis, stuck in the minds of senior officers of the college—and especially that of the president. Thus, in the summer of 2000, the president charged the LRP with developing a deliberative plan to guide the college's budgetary decisions in times of financial hardship. The president's goal was to develop and put in place a financial crisis plan *before* a crisis materialized that would serve in a manner analogous to an evacuation plan in the case of a fire, flood, or other emergency. An additional objective was for this "crisis plan" to complement an ongoing strategic planning process, in that members of the community would be forced to confront tough budgetary choices and, it was hoped, establish clear priorities.

This paper summarizes the results of our exercise and is divided into five sections. The next section describes Macalester's operating budget, its recent budgetary history, and our process for setting annual budgets. The third section estimates the impact of a recession on the college's gross revenue, net revenue, and financial aid through the use of basic econometric techniques. The fourth section examines the detailed impact of a financial shock to specific budget items and the choices agreed on by the committee in making its recommendations to the president. The final section serves as the paper's conclusion.

BUDGET BASICS AND HISTORY

Figure 1 shows that, similar to most institutions of higher education, approximately 40 percent of Macalester's gross income—or 60 percent of our net income (gross income minus financial aid)—is directed to faculty and staff salaries. Also evident from Figure 1 is the large share of gross income dedicated to financial aid. Given the fact that salaries, including benefits, and financial aid comprise the vast majority of the operating budget, a serious

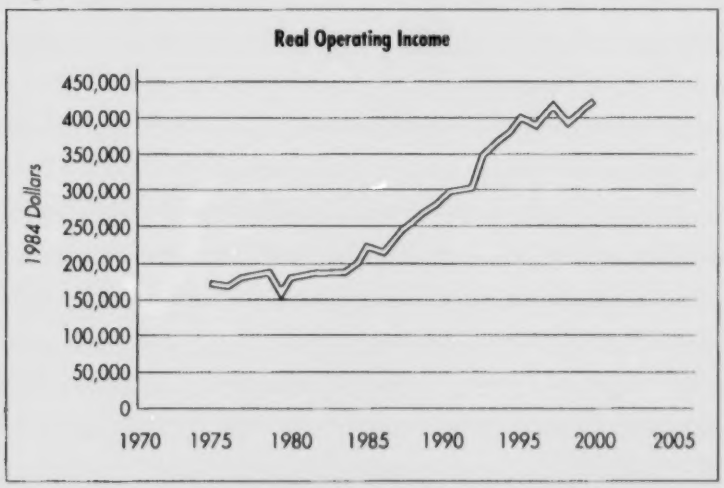
Figure 1.



financial shock to the college's revenue necessitates a close examination of salaries, faculty and staff levels, and financial aid, possibly including Macalester's long-standing commitment to need-blind admissions.

To obtain a clearer sense of the range of possible magnitudes a financial shock might take, Figure 2 graphs Macalester's historic operating income. Clearly evident from Figure 2 are the occasionally significant declines in operating income from one year to the next. Historically, the largest declines in Macalester's operating income occurred in the 1970s, with the largest percentage decline of nearly 20 percent coinciding with the high inflation and low growth of 1979. By comparison, the decline resulting from the dividend cut in 1997 was a relatively mild four percent in real terms.

Figure 2.



Macalester's annual budget process can be described as a bottom-up consensual process with final approval of the budget in the hands of the trustees and the president. Most of the specifics in the annual budget are entrusted to the Task Force on Budget (TFOB). This committee is chaired by the vice president for administration and is staffed by senior staff (direct reports to the president), the provost, additional staff with special budgetary responsibilities, and a faculty member from the LRP committee who communicates regularly with the LRP on budgetary developments. In addition, the TFOB and LRP meet jointly several times each year to ensure frequent communication and overall consistency of annual budgets with the college's long-term strategies. The LRP's official role in the process is advisory to the president, but in practice LRP and TFOB work increasingly closely on the specifics of the budget.

ESTIMATED IMPACT OF A RECESSION

This section endeavors to quantify the relationship of Macalester's operating revenue to changes in the overall economy. Because Macalester's revenue is derived primarily from three sources—the endowment, tuition and fees, and annual gifts—economic changes that directly affect the college's operations will do so through changes in the return on our endowment, and in our ability to raise tuition net of financial aid and to generate gifts.

As noted previously, financial aid comprises roughly 25 percent of the college's gross operating budget. Clearly, Macalester's net operating revenue can be severely affected by factors that have an impact on financial aid. Because Macalester adheres to a policy of need-blind admissions in which students are admitted before aid is awarded, and aid is awarded on the basis of family income, the college has a limited ability on a near-term basis to adapt to short-term increases or decreases in families' ability to pay.

In sum, an economic downturn will affect the college in two ways. First, a recession will reduce gifts, net tuition revenues, and, most likely, returns from the endowment. Second, a recession will increase the college's financial aid obligations as we attempt to cover the deterioration in household balance sheets with additional financial aid.

Methods and Assumptions

To fully capture the effects of a recession on the college's finances, we modeled the impacts on net income in two stages. The first stage estimates Macalester's gross income as a function of gross domestic product (GDP) and the level of the Dow Jones Industrial Average. Because Macalester draws from the endowment according to a 16-quarter moving average of the endowment value, and tuition and fee decisions are made 6 months to a year in advance, we took a 2-year moving average of real GDP and the nominal value of the Dow, lagged 1 year. Although the 2-year moving average is a bit shorter than our 4-year endowment spending rule, and theoretically we might expect a 4-year moving average to explain changes in Macalester's income better than a shorter moving average, we found this not to be so. Hence we chose to use the 2-year moving average. In addition to the two variables designed to capture the impact of economy-wide changes on Macalester's operating income, we used a dummy variable that captures the unusual financial situation of the early to mid-1990s.

The second stage of our model estimates financial aid as a function of Macalester's gross income, tuition lagged 1 year, and a 2-year moving average of GDP, lagged 1 year. Once

Table 1.

Estimating Elasticities of Gross Revenue and Financial Aid Based on Macalester's Historical Financial Data, 1974–2000

Dependent Variable	Gross Operating Revenue		Financial Aid	
	Coefficients	Estimated Elasticities[a] at Means	Coefficients	Estimated Elasticities[a] at Means
C	-37238506.0		10588565.0	
	-10.2		—	
D90	11138038.0			
	10.7		3.2	
Tuition (-1)	—		915.1	1.80
			3.2	
GDPMA (-1)	10916.7	1.84	-3653.4	-3.36
(2-year moving average)	13.3		-3.7	
Gross revenue	—		0.1	0.55
Dow Jones	2394.8	0.21	—	
	7.3			
R^2	0.993		0.987	
Adjusted R^2	0.993		0.986	
F statistic	1149.395		596.65	

[a] The elasticity indicates the percentage change in the dependent variable resulting from a 1 percent change in the independent variable.

C = intercept; D90 = dummy variable; (-1) = 1-year lag; GDPMA = gross domestic product moving average.

estimates of gross income and financial aid were obtained, simple subtraction of financial aid from gross income was performed to obtain estimates of the impact of a recession on Macalester's net operating income. Table 1 shows the results of the estimation for financial aid and gross income.

As can be seen from Table 1, both regressions explain a very large fraction of the variation in their respective dependent variables—gross operating income and financial aid. Although the results in Table 1 represent historic relationships between the variables that may not hold in the future, these results should provide plausible estimates of the impact of a recession on Macalester's financial situation. Note also in Table 1 the high elasticities of gross revenue with respect to changes in real GDP, as well as the large impact decreases in GDP are estimated to have on financial aid. Financial aid also responds significantly to increases in tuition, whereas both gross revenue and financial aid are less responsive to changes in the Dow and gross revenue, respectively.

Once the parameters were estimated, they were used to derive the forecasts. Three recession scenarios were generated using alternative assumptions and were compared with a fourth, baseline, revenue forecast. The baseline forecast was generated using the historic average GDP growth of 2.7 percent per year and an 8 percent appreciation in the Dow. The baseline forecast simply increased GDP and the Dow into the future at the historic average growth rates.

The three recession scenarios were obtained by inserting alternative values of GDP and the Dow into the estimations. The alternative values for the independent variables were obtained by multiplying previous-year levels of GDP and the Dow by various growth rates. The growth rates were chosen based on values from the recessions of the 1980s (1980 to 1983) and the 1990s (1990 to 1993). The third recession scenario was derived by plugging in "best guess" values for the current slowdown and then calculating gross revenue. Table 2 provides a summary of the assumed growth rates used for the four forecasts.

Once the gross revenue forecasts were estimated, a similar procedure was used to estimate the impact of a recession on financial aid, although the financial aid forecast is somewhat more involved in that it also depends on gross income and tuition. Because this exercise is con-

Table 2.

Assumptions Used in Revenue Forecasts

		Scenario			
Variable	*Year*	*Baseline (%)*	1980 Recession	1990 Recession	2001 "Slowdown"
GDP	1	2.70	-0.34	1.23	1.00
	2	2.70	2.29	-0.93	2.00
	3	2.70	-2.13	2.71	2.70
	4	2.70	3.97	2.33	2.70
Dow	1	8.00	5.57	6.78	-4.00
	2	8.00	4.66	9.35	6.00
	3	8.00	-5.21	12.12	8.00
	4	8.00	8.00	7.24	8.00

GDP = gross domestic product

Note: The 8 percent growth in the Dow used for the baseline forecast is below the historic average of 10 percent. The lower figure was used because it provided a more accurate near-term forecast than the 10 percent growth rate.

Table 3.

Estimated Impact of Recession on Gross Revenue, Financial Aid, and Net Revenue

	Gross Revenue			
Year	*Baseline*	*1980 Recession*	*1990 Recession*	*2001 Slowdown*
2001	$77,170,924	$75,540,842	$76,373,769	$74,933,280
2002	$81,634,933	$77,695,808	$78,585,682	$76,710,185
2003	$86,329,348	$77,641,822	$82,368,733	$80,797,029
2004	$91,269,175	$78,751,685	$87,544,878	$85,409,526
2005	$96,524,019	$83,919,768	$92,468,272	$90,308,025
2006	$102,119,915	$88,841,047	$98,017,652	$95,515,831
	Financial Aid			
Year	*Baseline*	*1980 Recession*	*1990 Recession*	*2001 Slowdown*
2001	$15,230,191	$15,230,191	$15,230,191	$15,230,191
2002	$16,296,774	$17,083,400	$16,283,738	$16,668,700
2003	$17,204,704	$17,677,416	$17,257,657	$17,579,412
2004	$18,167,296	$18,350,431	$18,402,634	$18,531,448
2005	$19,188,200	$19,323,276	$19,509,828	$19,547,431
2006	$20,271,334	$20,380,979	$20,583,550	$20,632,309
	Net Income			
Year	*Baseline*	*1980 Recession*	*1990 Recession*	*2001 Slowdown*
2001	$61,940,732	$60,310,650	$61,143,577	$59,703,088
2002	$65,338,159	$60,612,407	$62,301,944	$60,041,484
2003	$69,124,643	$59,964,405	$65,111,075	$63,217,617
2004	$73,101,879	$60,401,254	$69,142,244	$66,878,077
2005	$77,335,819	$64,596,492	$72,958,444	$70,760,593
2006	$81,848,581	$68,460,067	$77,434,102	$74,883,521

cerned with estimating the impact of a recession on the college's finances and not on changes in tuition, we held tuition growth rates at a nominal 4 percent per year, which is slightly below our historic average. The same growth rate for tuition was used in all four forecasts.

Results

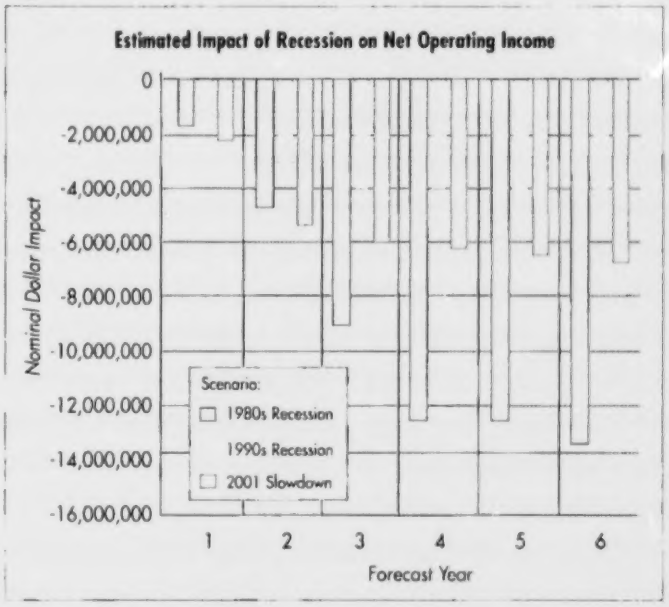
As can be seen in Table 3, the impact of a recession on the college's finances can be quite significant.

The estimated impact of the severe recession of the 1980s is dramatic, with a nearly $10 million shortfall on net revenue relative to the baseline forecast just two years out. The 1990s recession, in which the GDP fell only slightly but the Dow continued to increase, has the least impact on gross and net income and financial aid. Nevertheless, two years after the onset of the recession, net income is some $4 million below the baseline. The 2001 "slowdown," in which the Dow falls significantly whereas GDP growth slows but remains positive, is surprisingly more severe than the 1990s recession—which is more or less the reverse situation, with the Dow increasing and

GDP falling slightly. Note that the 2001 slowdown is assumed to be brief by historic standards—one year or so—yet operating revenue is roughly $6 million below baseline three years after the onset of the slowdown. To place this in perspective, the $6 million difference is roughly equal to half of the entire faculty salary line in the budget. A more graphic illustration of the financial impact of a recession is provided in Figure 3, which subtracts the baseline revenue from the estimated recession forecast.

In sum, a recession can have a profound impact on a college's financial situation. Our worst-case scenario predicts net revenue nearly 20 percent below the baseline forecast, a shortfall that, for Macalester at least, would require difficult budget choices. Even under the somewhat optimistic assumptions that the 2001 slowdown in growth is brief and that the Dow will begin to recover from its depressed state, we estimate a $6 million impact on net revenues, which is slightly less than 10 percent of our estimated operating budget 5 years out. In current dollars, this level of financial stress would be similar in magnitude to the dividend cut the college experienced in 1997.

Figure 3.



PLANNING FOR PAIN

Our forecasts indicate that the impact of a recession on the college's finances could indeed be severe—on the order of a $5 to $10 million reduction in net operating income. The LRP wrestled with managing budget shocks similar in magnitude to the levels estimated in the previous section. The committee did not spend a great deal of time or energy attempting to model the precise impact of an economic downturn; rather, the committee's objective was to develop a plan that could, in principle, address the sorts of budget shocks that we might plausibly expect to experience in a recession. Our hope was to have a plan that might serve the college in making difficult choices in a deliberative fashion should a recession come to pass.

The LRP settled quickly on a model estimating revenue reductions of approximately $4 million, or 10 percent, by Year 4 of an economic downturn. This impact is incremental, as the stabilized market value of the endowment works its way through our spending formula and as the financial aid accelerator increases. The income reduction at Year 4 was allocated as shown in Table 4.

The committee then devoted its efforts to a search for "exit strategies." Our work entailed a thorough review of both the income and expenditure sides of the budget in a search for countermeasures that would offset the 10 percent reduction and also result in sustained savings. (We did not view the revenue reduction as temporary, but rather as a move to a new reduced base from which we would work forward.)

Strategies identified and discussed by the LRP includ-

Table 4.

Estimated Reductions in Income	
Endowment Spending	$2.24 million
Gifts	.15 million
Financial Aid	1.45 million
Total	**$3.84 million**

Table 5.

Estimated Savings of Strategies to Reduce Costs during an Economic Slowdown

Strategy	*Estimated Savings*
Reduce study away, capping it at 100 FTE per year	$ .25 million
Modify salary increases, from inflation plus 1.5% to the rate of inflation, and reduce the associated growth rate in fringe benefits from 5% to 4%	$1.85 million
Reduce the growth rate in program budgets from inflation plus 1% to the rate of inflation	$ .50 million
Increase summer facility rentals	$ .30 million
Manage financial aid with an eye toward revenue maximization	$ .90 million
Total	**$3.80 million**

ed salary freezes, reduced salary increases, or both; an increase of the endowment spending rate; postponement of capital projects and the associated debt burden; increased dorm and dining occupancy; and a modification of our financial aid policies. At a second session, the committee added a few more strategies, including a reduction in faculty and staff, an increase in the size of the student body, program elimination or cuts, a reduction in the number of students studying away from campus, and increased campus utilization during the summer.

After much discussion, a general consensus developed around the strategies shown in Table 5, should they become necessary.

The last item in Table 5, regarding financial aid, was discussed at length. It was recognized that our current need-blind admissions and fulfillment of demonstrated need policies are increasingly distinctive in the liberal arts marketplace; their contribution to the quality of our entering student body is widely acknowledged. Moreover, strong sentiment exists among all parts of the Macalester community that keeping the college open to students of all economic backgrounds is a cherished value, which members of the community would be willing to make significant sacrifices to preserve. A specific tactic identified for further consideration was for the college to be partially need aware by capping the number of students admitted and enrolled on a need-blind basis. The committee also considered and endorsed deferral of capital projects and the associated debt service costs as an alternative strategy.

The combined impact of these measures, as run through our planning model, would fully offset the 10 percent revenue decrease. The financial aid and net tuition revenue item clearly has the single largest impact and would therefore have to be a part of any implementation scenario. The committee recognized that it could not say with certainty that a modification in our current financial aid policies would, in fact, generate both the desired class and an increase of the projected size in net revenues, but there was a sense that some modification inevitably would have to be a part of any effective solution to a slowdown scenario. As such, it deserves further consideration.

In the end, specific levels were agreed on for each of the proposed measures that, when applied, resulted in a combined impact that fully offset the projected 10 percent revenue decrease.

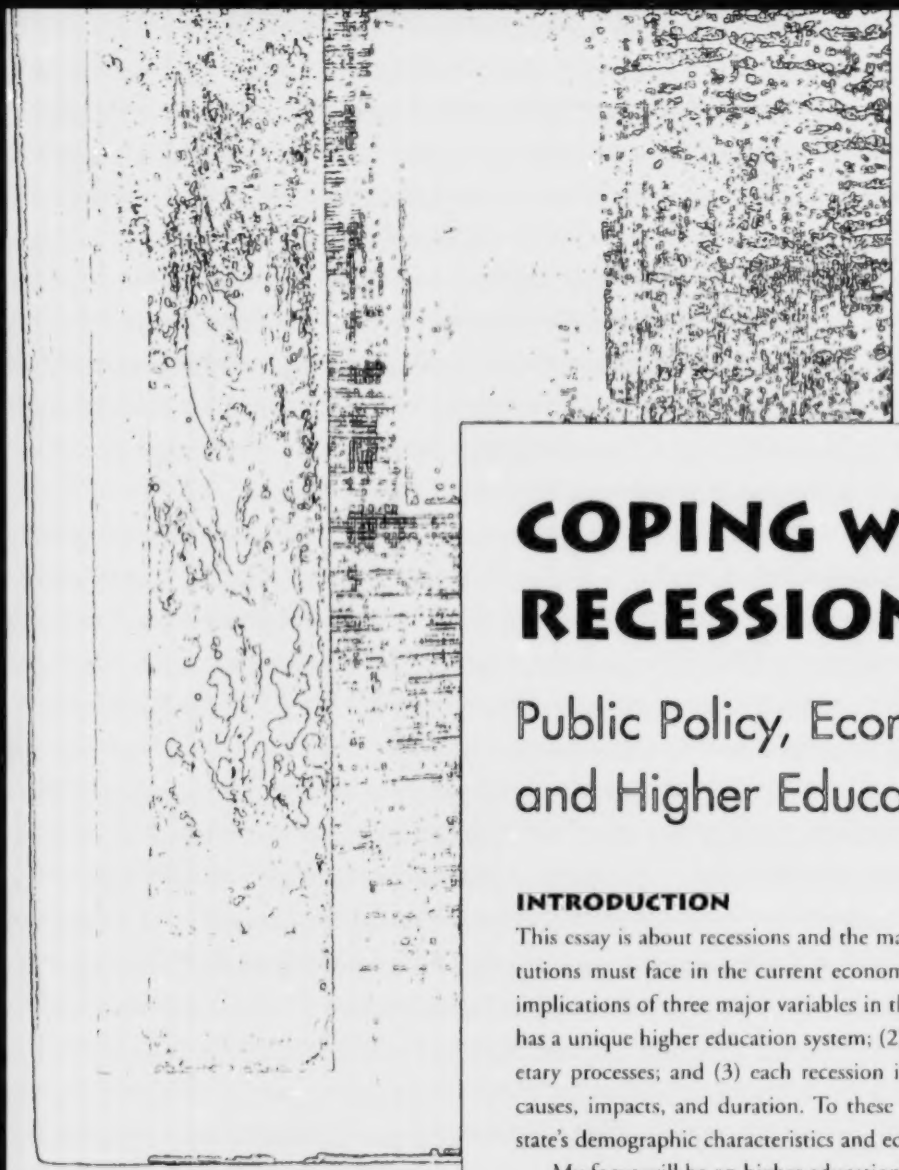
CONCLUSION

Although the planning exercise described here achieved its budgetary goals, the committee was compelled to recognize the lasting negative impact that the reductions would have on the quality of the faculty, staff, students, and, likewise, of the college. In that sense, they are survival tactics that ultimately do not preserve Macalester as we know it today.

Nonetheless, elements of the modeled scenario are in place today. Market value of the endowment is off, gifts are flat, and there is upward pressure on the average financial aid grant. This year's cycle of budget building will have to face slowed total revenue growth. Will our planning exercise help to identify exit strategies? Only if there is awareness and consensus that there is a fire in the building. In that respect, the real value of such an exercise is that it helps to raise consciousness among faculty and staff who generally don't concern themselves with budgetary matters, thus laying the groundwork for making difficult choices while still retaining the fabric of the college community. The more difficult question may be whether our shared governance system will enable us to pursue the reduction strategies identified as the nation's economy makes those steps necessary. Time will tell.

Craig Aase is vice president for administration and treasurer of Macalester College. He is a recipient of a Joyce Foundation grant to examine pricing and financial trends in selective liberal arts colleges.

Gary Krueger is associate professor of economics at Macalester College. He chaired Macalester's Strategic Direction and Long Range Planning committees.



COPING WITH RECESSION

Public Policy, Economic Downturns, and Higher Education

INTRODUCTION

This essay is about recessions and the major policy considerations that states and institutions must face in the current economic downturn. I will discuss the public policy implications of three major variables in the course of the essay: (1) each of the 50 states has a unique higher education system; (2) each state also has unique revenue and budgetary processes; and (3) each recession is a unique, unpredictable event with its own causes, impacts, and duration. To these variables, one must add such conditions as a state's demographic characteristics and economic trends.

My focus will be on higher education policy, and I cannot overemphasize its importance. Skeptics will tell you that state public policy is a myth, and that politics is all there is. Politics is certainly more visible than policy, but policy is just as real. State *policies* look to desirable, even ideal, outcomes. In contrast, state *politics* look to the practical and the feasible, and political considerations weigh heavily on elected state officials who must make the key decisions about funding public services. The politics of scarcity are very different from the politics of prosperity—and different in ways that are often inimical to financial support of higher education.

State higher education policy, therefore, will be the setting for this essay. Within this setting, my observations are not guided by any generally accepted concept (if indeed there

PATRICK M. CALLAN □ **The National Center for Public Policy and Higher Education**

A principal story of American higher education has been one of growth: growth in enrollments, in the number of public institutions of higher education, and in state support for these institutions.

is one) that explains the complex interactions between government and higher education institutions. Rather, I first want to describe certain aspects of state financing of colleges and universities, focusing on those that were most affected by the recession in the early 1990s. Then I will discuss selected aspects of the current recession, particularly how it differs from earlier ones. I will close with a final observation on the present recession.

THE CONTEXT: STATE BUDGETING AND HIGHER EDUCATION'S VULNERABILITY

The great variety of state budgetary and higher education structures may prevent us from finding broadly applicable methods to cope with the next recession, but we can generalize about policy initiatives, past and prospective. A principal story of American higher education has been one of growth: growth in enrollments, in the number of public institutions of higher education, and in state support for these institutions. Such growth would not have occurred without positive federal and state public policy initiatives. The results justify the policies—for example, the percentage of people in the United States 25 years of age and older who have at least a bachelor's degree has increased from just over 20 percent to just over 25 percent during the past decade (U.S. Bureau of the Census, 2001a, p. B8). But we must not forget that in the early 1990s, during the recession, higher education was sometimes in severe competition with other state services for financial support (H.A. Hovey, 1999, p. 8).

In this part of the essay, I will describe the state financing structures and policies that support public higher education, then I will discuss economic projections that suggest these structures can cause financial stress for higher education in the near future, and finally I will touch on major aspects of the recession of the early 1990s.

THE STRUCTURE OF STATE REVENUES

Under our federal system, responsibility for education is with the 50 states. (In many other countries, education is under national control.) Federal initiatives—in particular, the land grant legislation and the G.I. Bill of Rights—were seminal policy actions. It was the individual states, however, that implemented these historic expansions of opportunity. Each state responded based on its own unique political and social conditions—for example, land grant status may be with the state's major public research university, as in California and Illinois; with a separate public university, as in Iowa and Michigan; or with an independent university, as in New York.

This diversity of state higher education structures is mirrored by the diversity of state revenue structures. These revenue structures are distinguished from that of the federal government by their low elasticity—that is, state and local revenues from existing taxes do not grow as rapidly as personal income, while federal revenues grow more rapidly. The major reason for the difference is the heavy reliance of many states on sales taxes—taxes on goods sold. During the period of prosperity from 1992 to 1997, the increase in state revenue from state and local taxes soared, rising on average by 31 percent. In 1997, sales taxes represented 41 percent of state and local revenue, and property taxes 34 percent; income taxes accounted for only 25 percent of state revenues (K.A. Hovey and H.A. Hovey, 2001).

These national averages tell a story about state revenues, but they also obscure important differences that have implications for managing state budgets and determining state policy. For instance, New Hampshire derives 78 percent of its state and local revenue from property taxes, whereas Alabama derives only 15 per-

cent from that source. Nevada, on the other hand, derives 75 percent of its state revenue from sales taxes, but in Oregon only 13 percent comes from that source. Delaware relies on income tax to provide 54 percent of state revenues, whereas South Dakota and Texas have no income tax at all (K.A. Hovey and H.A. Hovey, 2001). These differences determine how states are affected by, respond to, and ultimately recover from recessions.

Public higher education—including funding for student financial aid—must compete with other state services for its share of available funds. Because all the states but one are required to have a balanced budget, a gain for one legitimate, worthy state service—say, Medicaid—means less for another—say, higher education. National data, for example, show that in 1987 Medicaid received slightly over 10 percent of state spending and higher education received slightly over 12 percent. By 1990, however, spending for Medicaid slightly exceeded that for higher education, and by 1995 Medicaid's share was more than 19 percent and higher education's share just over 10 percent. For fiscal 2002, state governors have recommended an increase of some $25.1 billion for prescription drugs under Medicaid—almost double the amount spent in fiscal 1998 (National Governors Association and National Association of State Budget Officers, 2001). This example is not an isolated one.

Higher education's declining share of state expenditures does not represent any deliberate policy decision to substantially curtail state funding. Indeed, state support for higher education has often increased in absolute dollars even as its share declined. The reasons for the decline in share can be found in the nature of the competition for state funds, the growth of other state services, political priorities, and the perceptions of key state officials. In his detailed assessment of the competitors for state funds, Harold Hovey looked at the public schools, which receive the largest share—roughly one-third of state expenditures—and noted:

"This group is politically formidable because it does many things that public higher education does very little of or not at all: (1) active lobbying from the grass roots while legislators are in session; (2) endorsement of candidates; (3) support of endorsed candidates with campaign workers and campaign contributions; and (4) retaliation against perceived opponents by such devices as supporting opponents in primary challenges and general elections (H.A. Hovey, 1999, p. 42)."

He might have added that public school leaders are often less reluctant than higher education leaders to publicly oppose tax cuts that threaten their state appropriations.

The impact of Medicaid on other state services is well known. As the National Governors Association notes, "Because of the large percentage of state budgets that Medicaid commands, Medicaid spending increases are felt throughout state government, affecting resources allocated for other key services, such as education" (National Governors Association, 2001).

Like the public schools, Medicaid enjoys a political edge over higher education. Hovey explains how changing Medicaid eligibility standards to reduce state expenditures would mean risking the publicity of throwing elderly nursing home residents "out on the street" (H.A. Hovey, 1999, p. 44).

Higher education's competitive position is also weakened by the perceptions of governors, legislators, and key executive and legislative staff members. Relative to other state services and agencies, colleges and universities are seen as having fiscal and programmatic flexibility. Unlike other state agencies, many higher education institutions have separate budgets and reserves of their own. Campuses are also assumed to be able to absorb temporary fiscal adversity by translating budget cuts into payroll cuts, since many campuses are not bound by collective bargaining agreements. Unlike state agencies whose programs have relatively fixed spending levels (some set in statute, others mandated by court decisions and federal requirements), colleges and universities can save money by increasing class sizes and changing course offerings—and even by reducing enrollments. Higher education can also shift costs to students and their families by raising

tuition (H.A. Hovey, 1999, p. 20). Ironically, the fairly recent tendency on the part of some colleges and universities to characterize themselves as "state related" and "state affiliated," in hopes of attracting private support, may also undermine the perception of state responsibility for their support.

Although higher education is vulnerable in the competition for state resources, it nevertheless entered the new millennium with several years of historically unprecedented increases in state appropriations (Eckl and Pérez, 2001, p. 4; National Governors Association, 2001, p. 1). It is still uncertain whether these recent gains are now threatened, but it is clear that 2001 may mark the end of higher education's very best of financial times ("Colleges Brace," 2001, pp. A10–18). Some 17 states faced budget shortfalls in fiscal 2001 (Eckl and Pérez, 2001, p. 1). I do not know all the causes of these current difficulties, nor will I speculate on whether they indicate just a blip, a short-term recession, the beginning of a long-term economic downturn, or a new plateau. I do believe, however, that regardless of both current problems and the effects of the current recession, the medium-term fiscal prospects for higher education—public higher education, particularly—are quite problematic.

THE CONTINUING BATTLE TO SUSTAIN CURRENT SUPPORT FOR HIGHER EDUCATION

In 1999, Harold Hovey, one of the nation's leading analysts of public finance, examined the consequences of the inelasticity of state revenue structures (H.A. Hovey, 1999; Gold, 1995). As personal incomes rise, people spend incrementally less on taxed goods and more for nontaxed services, and thus increases in state revenues do not keep pace with increases in personal income. At the same time, however, the costs of maintaining state services increase—owing to demography, workload formulas, inflation, and other factors—and they increase at a faster rate than the revenues available to support them. The result is that for every increase of 10 percent in personal income, state and local tax revenues rise only by about 9.5 percent (H.A. Hovey, 1999, p. 6).

Hovey projected that, based on maintaining current services over eight years from 1998, the cost of state programmatic financial commitments would exceed state revenues in 39 states and that in the eighth year the average "structural deficit" for the 50 states would be 3.8 percent (see Table 1). In other words, the data from 1998 indicated that most states were living above their long-term means. Moreover, some states have enacted tax cuts since then.

Hovey's projections were made during the high point of economic prosperity. These projections did not assume, I must emphasize, a major recession, but rather only an end to the economic boom and an eventual return to the normal growth patterns of the previous quarter century. Hovey's projections were not embraced enthusiastically by either political or higher education leaders. The clear implication was that a day of reckoning for most states would come—a day when either taxes would have to be increased or budgets would have to be cut in order to *maintain* current services. Like most of us, elected officials tend to ignore bad news about the future

Hovey also predicted that state higher education budgets would be uniquely vulnerable when the day of reckoning arrived, even if the country experienced a return to normal growth rates and no significant downturn or recession. If state budget makers asked higher education to absorb only its proportional share of reduced revenue growth, college appropriations would fall, on the average, approximately .5 percent short of the amount needed to maintain current services. New initiatives could not be supported without commensurate reductions in base budgets. Maintaining higher education's current share would call for a major reversal of trends over the last quarter century. States would have to increase their appropriations for higher education at an average rate 1 percentage point above appropriations for other state and local spending over the eight-year period. In a third of the states, the

Table 1.

State and Local Surplus (or Shortfall) as a Percentage of Baseline Revenues in Year Eight of Fiscal Projections

Rank	*State*	*Percent*	*Rank*	*State*	*Percent*
1	Iowa	2.7%	27	North Carolina	-3.7%
2	Nebraska	1.5		**United States**	**-3.8**
3	North Dakota	0.9	28	Utah	-4.3
4	Ohio	0.9	29	South Carolina	-4.6
5	Kentucky	0.5	30	Vermont	-4.6
6	Connecticut	0.4	31	Alabama	-4.8
7	Michigan	0.4	32	South Dakota	-5.0
8	New York	0.3	33	Indiana	-5.7
9	Maine	0.1	34	Montana	-5.7
10	Minnesota	0.1	35	Georgia	-6.5
11	Massachusetts	0.0	36	Washington	-6.7
12	Oregon	-0.1	37	Virginia	-6.8
13	Illinois	-0.4	38	Colorado	-7.0
14	Pennsylvania	-1.3	39	Maryland	-7.1
15	West Virginia	-1.4	40	Texas	-7.8
16	Wisconsin	-1.5	41	New Hampshire	-8.2
17	Missouri	-1.8	42	Florida	-8.8
18	Kansas	-1.9	43	Tennessee	-9.1
19	Mississippi	-2.0	44	Arizona	-10.5
20	Oklahoma	-2.1	45	Wyoming	-10.6
21	Arkansas	-2.3	46	New Mexico	-12.0
22	Louisiana	-2.5	47	Idaho	-13.2
23	California	-2.8	48	Hawaii	-15.1
24	Rhode Island	-2.9	49	Alaska	-16.4
25	Delaware	-3.0	50	Nevada	-18.3
26	New Jersey	-3.3			

Source: H.A. Hovey, 1999, p. 10.

annual growth of state higher education spending would have to exceed growth in other state programs by 2 percentage points or more (see Table 2).

In other words, the rates of expenditure growth in the mid- and late 1990s were not sustainable, even in normal economic times. Between 1993 and 1998, a period that Hovey characterized as "about as good as it gets in state funding of higher education," college and university appropriations increased at rates that exceeded enrollment growth or inflation (H.A. Hovey, 1999, p. 8). The structure of state finance, as well as historical and political patterns, suggest higher education's vulnerability to the economic slowdown or recession.

RECENT EXPERIENCE: THE RECESSION OF THE EARLY 1990S

For additional insights into the political and fiscal dimensions of state finance, we need look no further than the national recession of the early 1990s (Gold, 1995; Callan and Finney, 1997). At least five generaliza-

Table 2.

Spending Increases Needed Over Eight Years to Maintain Level of Services in 1998

Rank	State	Annual Extra Budget Growth Needed for Higher Education*	Eight-Year Spending Growth Rate	
			All Programs	*Higher Education*
1	Vermont	5.3%	41.0%	83.3%
2	Nevada	4.9	75.4	114.8
3	Hawaii	4.3	45.3	79.5
4	New Mexico	3.3	52.2	78.9
5	Arizona	3.3	60.6	86.9
6	South Dakota	3.2	40.2	65.7
7	Wisconsin	3.0	36.9	60.8
8	Florida	2.9	46.3	69.6
9	Minnesota	2.8	38.0	60.3
10	Kansas	2.8	37.2	59.2
11	Washington	2.7	44.9	66.4
12	Connecticut	2.4	31.8	51.1
13	Maryland	2.4	40.5	59.6
14	New Hampshire	2.2	44.5	62.0
15	Iowa	2.1	32.0	48.7
16	Oklahoma	2.1	33.7	50.4
17	Alaska	2.1	43.6	60.3
18	Pennsylvania	1.9	32.5	47.4
19	Montana	1.7	43.1	56.7
20	Colorado	1.7	50.8	64.2
21	California	1.7	38.9	52.3
22	Rhode Island	1.6	33.7	46.8
23	North Dakota	1.5	33.2	45.0
24	Oregon	1.4	43.2	54.8
25	Nebraska	1.4	35.9	47.4
26	Missouri	1.3	36.9	47.5
27	Delaware	1.3	43.8	54.3
28	Louisiana	1.3	33.3	43.7

(continued)

tions are of significance:

• A national recession affects each state differently: In the early 1990s, the recession was very severe in the Northeast and in California, but it had relatively little impact in many other states.

• Although a national recession may be short, individual states may face financial stress for much longer periods.

• During a national recession, individual states may face financial stress for a number of other reasons. Among such factors in the early 1990s were rising Medicaid costs, new federal mandates, higher public school enrollments, court rulings, voter initiatives, inelastic tax systems, and corrections policy.

• When states face fiscal constraints, the impacts on state services vary across states, within states, and among service sectors.

• When revenue shortfalls are allocated among state services, higher education is likely to be required to

Rank	State	Annual Extra Budget Growth Needed for Higher Education*	Eight-Year Spending Growth Rate	
			All Programs	*Higher Education*
	United States	**1.0**	**39.5**	**47.7**
29	New York	1.0	32.5	40.5
30	Georgia	0.8	50.0	56.4
31	Massachusetts	0.8	36.1	42.3
32	Texas	0.7	45.5	51.5
33	Idaho	0.6	57.8	62.3
34	Virginia	0.5	41.6	45.7
35	Wyoming	0.3	42.4	44.5
36	Utah	0.1	51.0	52.1
37	Michigan	0.1	31.7	32.6
38	Illinois	0.0	33.4	33.8
39	Tennessee	0.0	45.4	45.4
40	Maine	-0.1	31.3	30.4
41	Ohio	-0.2	32.1	30.5
42	Indiana	-0.2	38.7	36.7
43	New Jersey	-0.5	37.1	33.3
44	Arkansas	-0.5	40.2	36.2
45	South Carolina	-0.5	40.0	36.0
46	Alabama	-0.6	38.9	34.3
47	Kentucky	-0.8	35.4	28.6
48	Mississippi	-0.9	37.4	30.5
49	West Virginia	-0.9	29.4	22.0
50	North Carolina	-1.3	45.9	35.3

** Positive values indicate that maintaining current services will require state spending for higher education to increase at a faster rate than that for other state programs. Negative values indicate that the state is projected to be able to maintain current services by increasing spending for higher education at a slower rate than that for other programs.*

Source: H.A. Hovey, 1999, p. 15.

absorb proportionately larger cuts than other sectors. When this happens, the state and higher education institutions are likely to shift shortfalls to students and their families by raising tuition.

Will these generalizations from the last recession be useful in the current situation? I do not know, but I do know that when higher education has to face the impact of a recession, it will do so under different conditions and policies than it did in the early 1990s.

WHAT'S DIFFERENT?

The structural characteristics of state finances and state higher education finance have not changed significantly since the recession of the early 1990s. Other factors, however—part demographic, part policy driven—will be different and will influence state and higher education responses.

One difference is good news: the robust financial condition of higher education at the beginning of the new

Figure 1.

Sources:
Finance figures: National Center for Education Statistics, *Current Fund Revenues and Expenditures of Higher Education*, Fiscal Years 1980-1988, 1987-1995, 1996; *Current Fund Revenues and Expenditures of Degree Granting Institutions*, Fiscal Year 1996, *Integrated Postsecondary Education Data System–Peer Analysis Program* (2000).
Full-time-equivalent enrollment figures: National Center for Education Statistics, *Digest of Education Statistics*, years 1984 through 2000.
Current Price Index: U.S. Bureau of Labor Statistics, *Current Price Index for All Urban Consumers*.

century. The 1990s were indeed the best of times for public higher education. Average revenues per student increased (in constant dollars) to an all-time high of $14,459 in 1998 (see Figure 1). State appropriations and tuition and fees account for about 70 percent of revenues for public colleges and universities. State support, after declining in the late 1980s and early 1990s, increased faster than inflation and enrollment growth in the middle and late 1990s. Revenues from tuition also reached a historic high in 1998. These trends continued through the end of the decade. From 1998 to 2000, as reported by researchers at Illinois State University, state appropriations per FTE (full-time equivalent) student, measured in constant dollars, increased by 14.5 percent (Center for Higher Education and Educational Finance, 1997–2001). Tuition at public institutions also continued to increase from 1998 to 2000, by 7 percent in four-year public institutions and by 10 percent in community colleges (The College Board, 2001a).

Of course, these national averages conceal unevenness and varying patterns of support among sectors, institutions, and states, and even within states. They also mask the bumpy ride of public finance for many states and institutions that suffered the most during the recession in the early 1990s and then benefited the most in the boom times of the middle and late 1990s. Nevertheless, the national data indicate that—whatever the future may hold—public higher education entered the new century financially strong. State appropriations held steady and increased modestly during the 1980s and 1990s. Fears and allegations of state disinvestment were false alarms. Tuition and fees did rise considerably faster than appropriations and other revenue sources during this period, and higher education's *share* of state appropriations did fall in most states. But the states maintained and improved their support for higher education over these years, and the financial condition of public higher education was significantly strengthened.

I now turn to three less-heartening factors that have come into play since the last recession: the challenges of enrollment growth, the dilemmas of tuition policy, and the mismatches between the public policies of the 1990s and the needs of the new decade.

UNPRECEDENTED ENROLLMENT GROWTH

States that experience substantial budget shortfalls during this decade will face a situation quite different from that in the last recession: the new fiscal constraints will come during a period of growing enrollment demand. (During

the 1990s recession, in contrast, higher education enrollments were relatively stable.) Over the next 10 years the student body will also become increasingly more diverse.

The number of high school graduates began to increase in the mid-1990s and will continue to increase through 2008, when the nation will graduate the largest public high school class in its history—3.2 million students—exceeding the class of 1979, the peak year of the Baby Boom, by more than 60,000 graduates. The class of 2008 will include 332,000 graduates from private high schools (an increase of about 30 percent over the mid-1990s) (Western Interstate Commission for Higher Education and the College Board, 1999, pp. 1–4).

Having more high school graduates will mean, of course, more college applicants, and the nation's colleges and universities are expected to experience unprecedented enrollment growth over the next 10 years. The Department of Education estimates that total college enrollment will grow from 14.8 million students in 1999 to 17.7 million in 2011, an increase of some 20 percent (Gerald and Husser, 2001, pp. 25, 29). The new enrollments will not be evenly distributed across the country, however. Some states will experience little change or even decreases. Others, particularly on the Pacific coast and in the Southwest and Southeast, will have to find places for substantially higher numbers of prospective college enrollees ("Almanac Issue," 2001, p. 8). The projections do not assume dramatic improvements in high school graduation rates. Should public school reforms prove successful, the numbers graduating from high school and enrolling in college would exceed projections. Several states that will be most challenged to accommodate additional enrollments already suffer from low college-participation rates.

The principal question for public higher education will be how to accommodate additional students without commensurate additional state support. But the problem of absolute growth will be compounded by the greater diversity of the students; many states are likely to see increases in both the absolute numbers and relative proportions of potential students from low-income families and from ethnic groups with historically low participation rates. For example, between 1990 and 1998 the Hispanic population in Arizona increased by 50 percent; in California, by 31 percent; and in Florida, by 43 percent. Over the same period, the African American population in Florida increased by 28 percent; in North Carolina, by 14 percent; and in Nevada, by 72 percent (Chance and Pickens, n.d.).

The unevenness of higher education opportunity across the states was one of the principal findings of *Measuring Up 2000*, a comparative study that evaluated state higher education performance (National Center for Public Policy and Higher Education, 2000, p. 10). Many of the states that will see significant increases in the number of high school graduates also have low college-participation rates, high percentages of children in poverty, and projected revenue shortfalls (see Table 3).

These high-growth, high-poverty states with projected budget shortfalls are likely to be the states where the future of higher education opportunity in the country will be determined. Many of these states also need to invest heavily in higher education capacity and in need-based financial assistance. But these are states where revenues are most likely to be adversely affected by an economic downturn or a recession, and higher education budgets will likely be under the greatest pressure.

Increased enrollment pressures, particularly during times of financial crisis, highlight the continuing, critical question of maintaining opportunity in America: How can states resolve the converging and overlapping issues of changes in the ethnic composition of enrollment pools and increased numbers of students in financial need?

THE TUITION CONUNDRUM

Setting tuition, the price that students and their families must pay to attend a public college, is a problem that seems to defy rational solution—or even broad agreement about what would constitute "rationality." There is probably no other public policy issue in high-

Table 3.

Challenges Facing High-Enrollment-Growth States

	Change in # of High School Graduates (1999–2010)	Projected State Budget Shortfall (–) (2000–2006)	% Children in Poverty	Participation Score in *Measuring Up 2000*	
				Grade	(Index Score)
Nevada	75%*	–18.3%*	14%	D+	(67)**
Arizona	34%*	–10.5%*	25%*	C	(75)
Florida	26%*	–8.8%*	24%*	D+	(67)**
Georgia	25%*	–6.5%*	20%	F	(52)**
California	21%*	–2.8%	25%*	B+	(88)
New Jersey	20%*	–3.3%	14%	B+	(87)
North Carolina	20%*	–3.7%	20%	D	(66)**
Washington	19%*	–6.7%*	16%	C–	(72)
Maryland	16%*	–7.1%*	16%	A	(93)
Colorado	15%*	–7.0%*	12%	B–	(80)
Connecticut	15%*	0.4%	19%	B+	(88)
Oregon	13%*	–0.1%	16%	D	(64)**
Tennessee	13%*	–9.1%*	23%*	D–	(60)**
Virginia	13%*	–6.8%*	14%	B–	(82)
Texas	12%*	–7.8%*	25%*	D	(66)**
Idaho	11%*	–13.2%*	18%	D	(64)**
New York	9%*	0.3%	25%*	B–	(80)
United States	**9%**	**–3.8%**	**21%**	—	—

Note: The "participation score" comprises three indicators: high school to college rate, young adult enrollment, and working-age adult enrollment (National Center for Public Policy and Higher Education, 2000, p. 168).

** The challenge to the state is equal to or greater than the national average.*

*** The state received a score of "D" or "F" for participation in Measuring Up 2000.*

Sources: U.S. Bureau of the Census, 2000b; H.A. Hovey, 1999; National Center for Public Policy and Higher Education, 2000

er education on which the great preponderance of expert opinion—policy experts, scholars, and many higher education leaders—is so completely at odds with the preferences of the American public. Policy experts overwhelmingly favor "high tuition–high financial aid" strategies that would concentrate public subsidies on those least able to afford college. Although there is little support for free public higher education, the general public consistently favors low to moderate tuition with financial assistance for qualified and motivated students who are unable to afford college (Immerwahr and Farkas, 1993; Immerwahr, 1997; Immerwahr, 1998).

Since 1980, tuition at public and private institutions has risen significantly (see Figure 2). As discussed earlier in this essay, the structure of state finances and the exigencies of state politics squeeze higher education budgets when state revenues decline. States and colleges typically fill this revenue gap with tuition. The steepest tuition increases have occurred in times of economic hardship (see Figure 3)—times when personal income declines, unemployment rises, and pub-

lic economic anxiety is high. This is probably one major reason for the political unpopularity of tuition increases. When sharp tuition increases are enacted to fill gaps in state revenues, they rarely adhere to the high tuition–high aid model. The freed state dollars—rather than being used to increase need-based financial aid for college students—are expended to support programs of higher political salience, such as Medicaid, public schools, and corrections. In both good times and hard times, state and federal financial aid have lost ground to tuition (see Figure 4).

During good economic times, the reasonable and salutary principle that increases in tuition should be gradual, moderate, and predictable is not difficult to follow. But a recession is defined by economic changes that are sudden, large, and unpredictable. Recent history has shown the following:

- Formulas for setting tuition are early victims of a recession.
- The steepest tuition increases in the public sector have occurred during recessions as states seek to shift their costs to users, including students and their families.

The following comments, from a 1976 study (Bowen and Glenny, 1976, p. 60), illustrate this cost-shifting strategy:

> Campus administrators were very outspoken against tuition increases until the legislature indicated that these would be the only source of new money. They changed their minds fast.
>
> —Panel of university chief budget officers

Essentially, there will be level funding for 1976–77, offset in part by a portion of amounts that governing boards are able to

Figure 2.

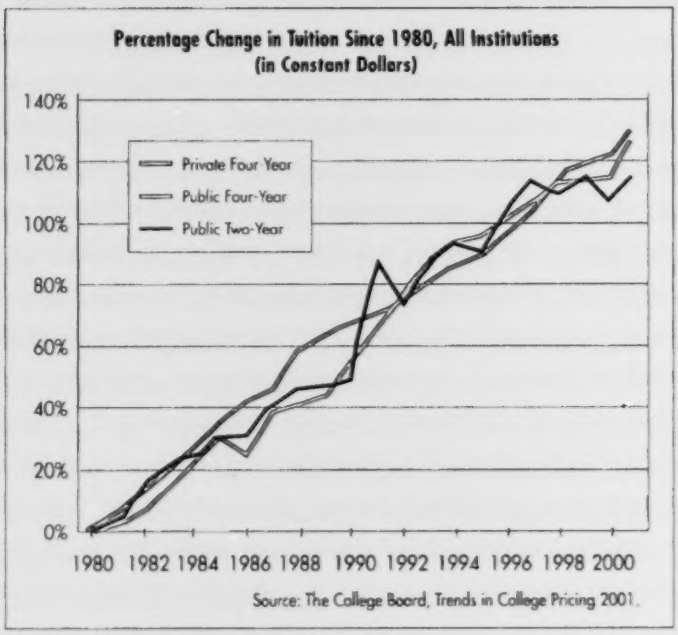


Figure 3.

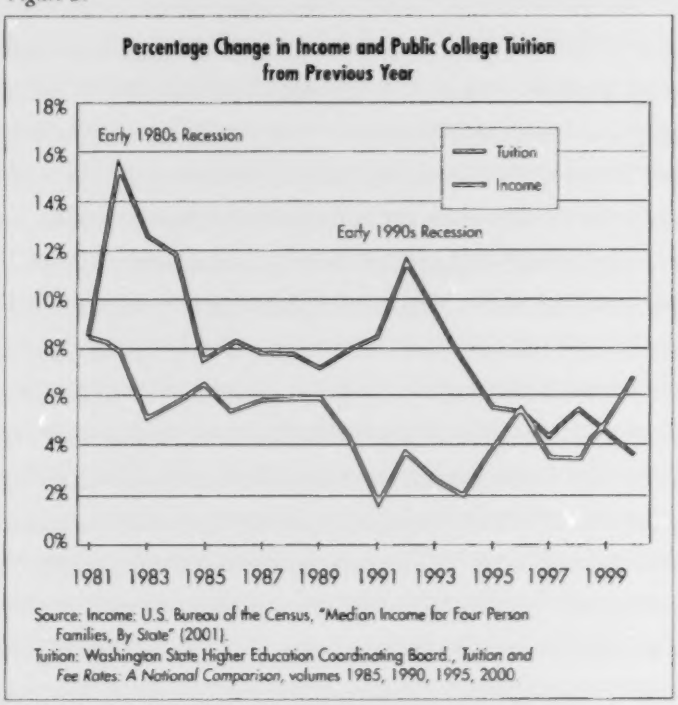
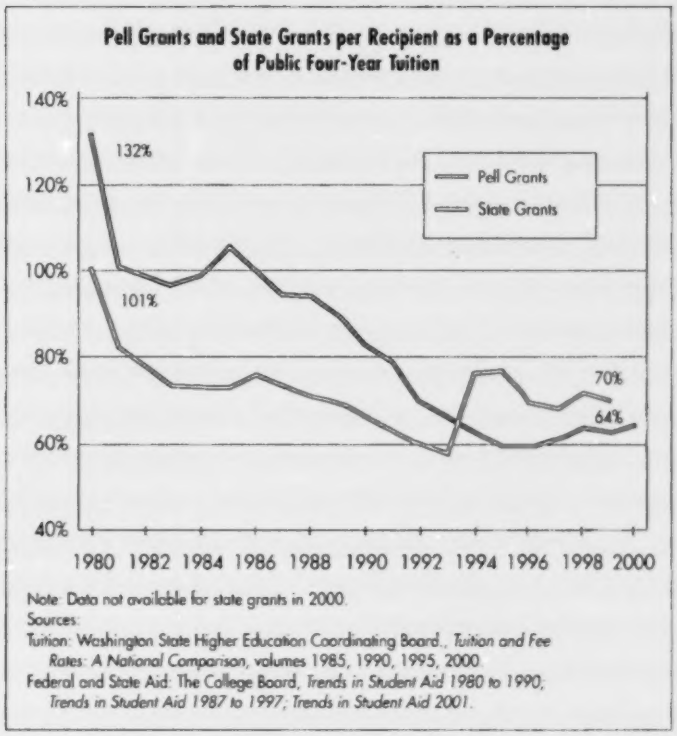


Figure 4.



Note: Data not available for state grants in 2000.
Sources:
Tuition: Washington State Higher Education Coordinating Board., *Tuition and Fee Rates: A National Comparison*, volumes 1985, 1990, 1995, 2000.
Federal and State Aid: The College Board, *Trends in Student Aid 1980 to 1990*; *Trends in Student Aid 1987 to 1997*; *Trends in Student Aid 2001*.

raise by increased tuition and fees.

—State budget officer

Because a state's most pressing problem during a recession is lack of revenue, states are unlikely to make new or additional investments in student financial aid that will offset increases in tuition. Indeed, student aid may be reduced, exacerbating the problem. An example from the recent past: In California over the initial three years of the 1990s recession, state support for the University of California was reduced by 19 percent, for California State University by 12 percent, and for the community colleges by 1 percent. The higher education institutions raised tuition, but state-funded student financial aid was reduced by 15 percent. One result of the financial aid cuts and related policies: California's public institutions ended up serving some 200,000 fewer students (Callan, 1998, pp. 28–29).

Higher tuition in the public sector is often thought to improve the competitiveness of the independent sector. But public sector tuition is seldom raised to a level that would improve competition. And when student aid does not increase commensurately with tuition, financial aid may be reallocated from the independent sector to the public sector as higher tuition brings more students into eligibility. This was the case in California, where the share of state financial aid dollars supporting students at independent campuses dropped from 42 percent in 1990–91 to 34 percent in 1993–94, but increased from 51 percent to 62 percent over the same period for students in the public sector. Similarly, in New York the Tuition Assistance Program (TAP) was established in the mid-1970s as a need-based entitlement with the primary purpose of permitting students to attend private colleges and universities. From 1991 to 1996, New York's public institutions mirrored the steep tuition increases seen throughout the country. TAP expenditures to CUNY and SUNY students increased by 180 percent and 97 percent, respectively, whereas expenditures to undergraduates at independent institutions increased only 7 percent. By 1996, more TAP funding was supporting students at New York's public institutions than students at independent institutions. When TAP was established, its maximum award paid for approximately half the average tuition at independent institutions, but in 1996 it covered only 26 percent (Callan and Finney, 1997, pp. 97, 218, 219).

Public higher education tuition is on a roller-coaster pattern because, regardless of formulas, it remains stable or is even reduced when state funds are sufficient to cover the cost of education. But when institutional costs rise to the point that higher revenues are needed or when state

support decreases or falls below expectations, tuition is increased. One generation of students coasts downhill with stable or even declining real tuition charges; the next labors uphill with the increased price. In difficult economic times, all attempts to rationalize tuition policies founder. But the roller-coaster pattern continues: During a recession students pay higher tuition, and their successors may benefit from a backlash that reduces the price.

THE POLITICS OF TUITION

Tuition increases are likely to remain an important tool in the repertoire of state and institutional response to recession. But the experience of the 1990s is instructive, for it reveals the political limits of this tool and the force of the backlash when the public believes that increases have been excessive. In New York, between 1990 and 1995, tuition increased from 4.2 percent to 7.7 percent of median household income; in California, the increase was from 1.7 percent to 3.1 percent (Halstead, 1998, pp. 11, 67).

Public opinion research during this period of economic volatility showed that the middle class in particular feared that higher education, just when it seemed more essential than ever, was becoming less accessible. As middle-class families weighed in on this issue, elected officials, first at the state and then at the federal level, began searching for ways to relieve public apprehension. By the mid-1990s, of the five states that had raised tuition by the largest percentages from 1990 to 1995 (California, Massachusetts, New York, Oregon, and Virginia), four had frozen tuition or slowed the rate of growth significantly. Tuition rollbacks followed in several states; most of them occurred after the economic crisis had passed, financial aid had been restored, and lost enrollment had been recovered, but public resentment remained. Governor Pete Wilson of California and Governor George Pataki of New York had supported steep tuition increases in the early and mid-1990s. Faced with adverse public opinion, and with reelection campaigns before them (Wilson in 1994, Pataki in 1998), both governors backed away from their earlier positions. In Wilson's case, this meant reneging on an agreement with public college and university leaders that called for annual tuition increases of up to 10 percent (Martinez and Nodine, 1997, p. 94). Prior to Wilson's reversal (and perhaps accounting for it in part), Gray Davis, the gubernatorial candidate who succeeded Wilson in 1998, proposed an amendment to the state constitution that would have frozen tuition and restricted future increases.

> As we have seen, Americans see higher education as the gateway to a good job and middle class lifestyle. If that gateway is threatened, we might expect to see considerable public distress.

While tuition freezes and rollbacks were under way in some states, others initiated new programs of student support, programs that were not means-tested and that provided new subsidies to middle-income students. At about that time, based on focus group information, President Clinton featured middle-class tax credits in his 1996 reelection campaign. I will comment on these programs in the next section. It is sufficient here to note that these programs came in the wake of steep tuition increases and public opinion polls reflecting middle-class anxi-

ety over the price of a college education.

In an afterword to a national public opinion survey published in May 2000, Deborah Wadsworth, president of the Public Agenda organization, commented: "For most Americans, higher education is a public policy success story." She then identified some future scenarios "that might cloud the public's current rosy outlook." The first of these, "problems with affordability," merits quotation in full:

"If large numbers of American families begin to feel that they can no longer afford to send their youngsters to college, higher education might easily become a 'hot button' for the public. Tougher economic times that force colleges and universities to raise prices or reduce admissions could affect the public's view that anyone who really wants a college education can get one. What's more, tougher economic times might well increase families' anxiety about their ability to cover their share of college expenses, as well as the availability of jobs for themselves and their children just coming out of college. Graduates' willingness and ability to shoulder substantial loans could drop dramatically in a less hospitable job market. An economic downsizing could upset the apple cart; cash-strapped Americans would likely greet any sign of diminishing access or rising costs with dismay. As we have seen, Americans see higher education as the gateway to a good job and middle class lifestyle. If that gateway is threatened, we might expect to see considerable public distress (Immerwahr and Foleno, 2000, pp. 33–34)."

POLICIES ILL-MATCHED TO NEW NEEDS

Generous state financial support in the 1990s left higher education in sound financial condition at the end of the decade. As discussed in earlier sections, in the coming decades many states that have had low college-participation rates will be faced with significantly higher enrollment demand. And the cohort of prospective students will include larger proportions of students from low-income families and from historically underrepresented ethnic groups. When college finances were healthy in the 1990s, it might have been expected that new state programs would have focused on the needs of the latter groups. It is clear that the new programs did not.

Instead, the major initiatives in many states were the establishment and support of non-means-tested ("merit") student aid programs. States responded to middle-class financial anxiety about college costs, to concerns about "brain drain"—the migration of high-achieving high school graduates to out-of-state colleges—and to the attraction of rewarding student achievement. These programs grew rapidly. From 1996–97 to 1999–2000, state non-need-based financial aid increased by 90 percent, from $459 million to $873 million; state need-based aid grew by 24 percent, from $2.6 billion to $3.2 billion (National Association of State Grant and Aid Programs, 1998, 2001). The structures of the merit programs vary considerably across states, but most are likely to have at most a marginal impact on the enrollment of underserved populations. Instead, these increasingly well-financed programs with politically potent middle-class beneficiaries now compete with need-based financial aid for state support, a competition that is certain to intensify during a recession.

At the federal level, a program for tuition tax credits was the major initiative of the 1990s. The beneficiaries are families with taxable incomes between $40,000 and $90,000, particularly those with students at colleges that charge high tuition. What appears to be an unintended consequence is that states with low-tuition public colleges and universities can shift costs to the federal government by raising tuition and encouraging eligible students and families to claim the credit. However, only students and families who owe taxes are eligible; lower-income students and their families who do not owe taxes are not eligible (Conklin, 1998). Most states and public institutions have not yet raised tuition to capture this new federal subsidy, probably because of the relatively generous state appropriations of recent years and the political unpopularity of tuition increases. In a recession,

however, it is unlikely that states or public colleges and universities will leave this federal subsidy "on the table," even though tuition increases to capture the subsidy will impede access for low-income students without increases in need-based student financial aid. However, recent history suggests that recessions are the time when states are least likely to make such investments. Indeed, federal tax credits may make it easier to reduce state subsidies for higher education and to shift support to other parts of the state budget. At the federal level, need-based student aid, unlike tax credits, must compete with other domestic programs in the annual appropriations process, a competition that inevitably intensifies during recessions.

It is not the purpose of this essay to evaluate these state and federal initiatives, but these recent student aid policies targeted at the middle class appear ill-matched with increasingly diverse enrollment demands. Whatever their merits, they represent another variable in the complexities of public financing for higher education. In responding to the recession, states will face enormous difficulties in understanding and working with the interactions among state grant programs, federal grant and tax credit programs, institutional aid, student qualifications, and family tax liabilities.

CONCLUDING OBSERVATION

The current recession coincides with the third great wave of college enrollments. The first was the veterans after World War II; then their children, the baby boomers. The current cohort includes many who, like the veterans, will be the first in their family to seek college admission. This generation of students will be the most racially and ethnically heterogeneous—and the poorest in terms of financial resources—ever to seek higher education. And these students arrive at a time when postsecondary education and training are essential for full participation in the civic, economic, and social life of America—for, if you will, participation in middle-class life.

It will require extraordinary effort on the part of states and colleges and universities to meet the needs of these students, even if the economy avoids a major, prolonged recession. The public policy initiatives of the 1990s did not position the states to meet the demands of the coming decade. Some initiatives—merit aid for students of affluent families, tax credits that exclude low-income Americans—may come to be remembered as public policy's contribution to "irrational exuberance."

Nevertheless, the assets that states and their colleges and universities bring to this new era should not be underestimated. Unlike the 1960s, most of the capacity to accommodate the new enrollments already exists. The financial condition of public higher education is generally strong. Public confidence in the enterprise is high.

Recession will test our nation's values and priorities. What will the states and the colleges choose to protect during a time of difficult choices? College has become the gateway to full participation in American life, and the stakes in maintaining and enhancing college opportunity have never been greater.

Patrick Callan is president of the National Center for Public Policy and Higher Education. He is co-author of *The Learning Connection: New Partnerships between Schools and Colleges* (2001), *Designing State Higher Education Systems for a New Century* (2001), and co-editor of *Public and Private Financing of Higher Education: Shaping Public Policy for the Future* (1997).

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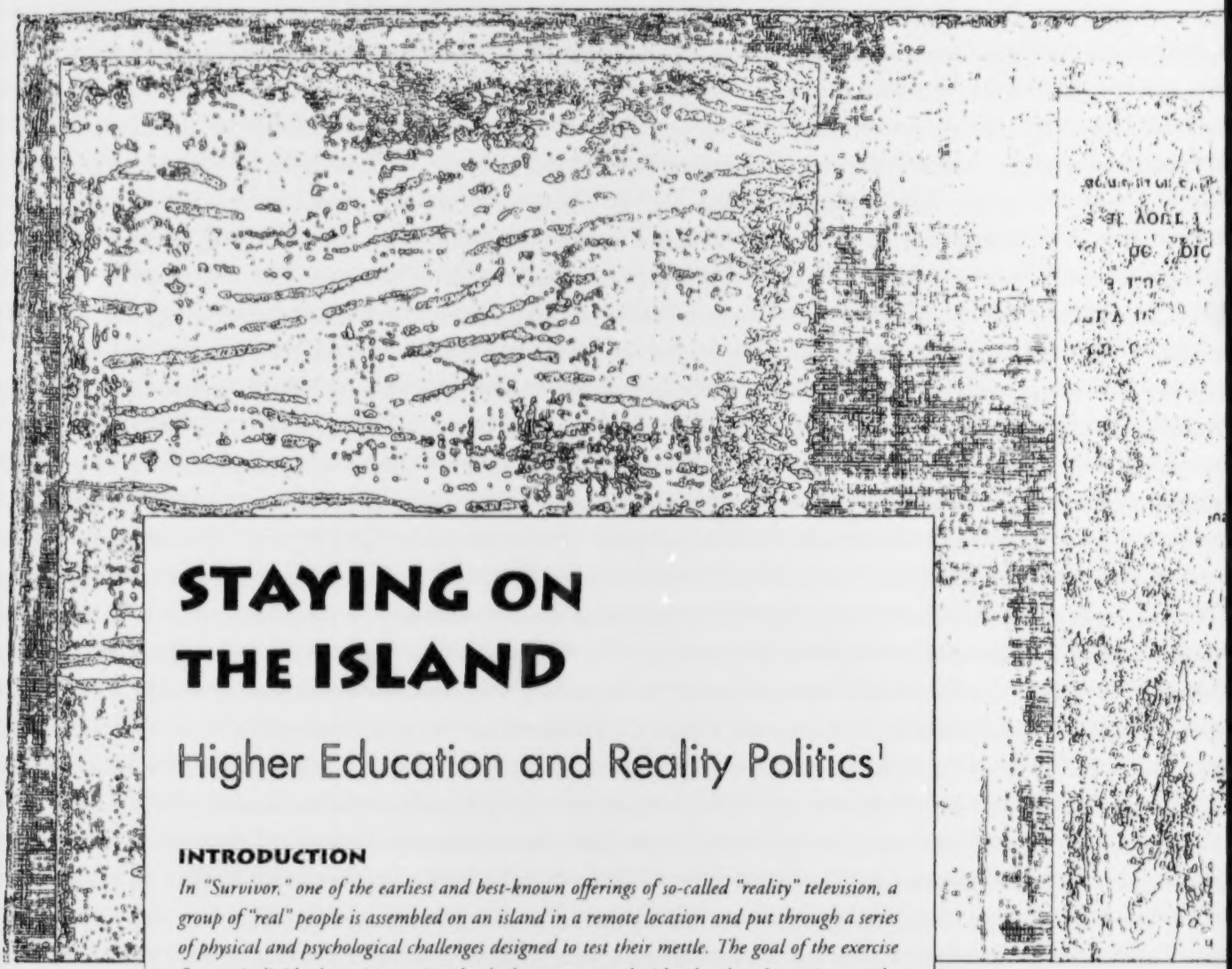

STAYING ON THE ISLAND

Higher Education and Reality Politics[1]

INTRODUCTION

In "Survivor," one of the earliest and best-known offerings of so-called "reality" television, a group of "real" people is assembled on an island in a remote location and put through a series of physical and psychological challenges designed to test their mettle. The goal of the exercise for any individual participant is to be the last person on the island—the sole survivor—who is rewarded with the million-dollar purse. Staying on the island depends on winning ways and the ability to make—and then break—key alliances. Unlucky players are voted off the island by their comrades, and they leave empty-handed. The show's motto sums up the exercise—"outplay, outwit, outlast."

The current political climate for higher education policy making calls to mind the challenges of "staying on the island." The Higher Education Act, signed into law by President Lyndon B. Johnson in 1965, is scheduled for its eighth reauthorization in 2003. Historically a legislative event little noticed outside a fairly small circle of experts, lobbyists, and university administrators, one might reasonably have expected that *this* reauthorization might be a more significant undertaking in the public sphere.

CLAYTON SPENCER □ Harvard University

[1] The views expressed are the author's and do not represent positions by or on behalf of Harvard University.

In the knowledge economy, education is more important than ever. Over the next 15 years, we will have more students of traditional college age (18 to 24 years) than at any point in our history. A solid majority of Americans believe that a college education is so important that they would send their children regardless of price (Spencer, 1999, p. 102). And the economic returns to higher education are greater than ever—individuals with a college degree earn 75 percent more than those with a high school diploma, with analogous aggregate effects on the economy as a whole.

Public opinion reflects these realities. Since 1996, education has ranked in national surveys as one of the top issues of voter concern (Bendetto, 1996). In a series of polls in late August and early September—before the events of September 11—education was the number one or number two concern—behind only the economy when it was behind at all (The Gallup Organization, 2001; PollingReport.com, 2001). A February 2002 survey by the American Council on Education found that 77 percent of those surveyed believe that a college education is more important today than it was 10 years ago—up from 73 percent in 2000, the last time the survey was conducted (Kellogg, 2002). Thirty years ago, at the time of perhaps the most important legislation in the history of higher education policy, only 2 percent of the American public even listed education among issues of national importance (Spencer, 1999, p. 105).

Politicians across the spectrum have been quick to respond to the public concern with education. President Clinton arrived in Washington in 1993 armed with an education agenda extending from cradle to grave—the expansion of Head Start for preschoolers, Goals 2000 School Reform, revision of the Elementary and Secondary Education Act, School to Work, Student Loan Reform, and National Service—all signed into law within his first two years in office (Spencer, 1999, p. 106). These measures were followed by the Taxpayers Relief Act of 1997, which included more than $40 billion over five years in tax credits aimed at higher education. In 2001, newly elected George W. Bush followed suit, vowing, when he sent his education legislation to Congress on his second day in office, that "bi-partisan education reform will be the cornerstone of my administration" (Bush, 2001c). He delivered on that promise by January 2002, signing into law the Leave No Child Behind Act of 2001 with Senator Kennedy standing at his side. It was one of the few pieces of domestic legislation unrelated to security to win passage in the months following September 11.

In short, education, historically a matter for states, localities, and independent boards of trustees, has achieved manifest political salience on the national scene. Notwithstanding this fact, I will argue that there is little reason to be optimistic that *higher education* will benefit in terms of either funding priority or policy coherence over the next several years. Even though reauthorization should provide a natural opportunity for comprehensive policy debate, better coordination of programs, and more cogent claims for funding, significant forces lead in a contrary direction. First, the events of September 11 and the ensuing "war on terrorism" changed overnight the context for federal policy making—and subordinated all domestic issues with the possible exception of the economy. Second, the recession, in combination with the large tax cuts passed in June 2001 and the budgetary demands of defense and homeland security, will for the foreseeable future seriously compromise federal domestic discretionary spending, which includes the nonloan portions of student aid. Finally, even within the politics of education, higher education has become a stepchild, competing with elementary and secondary education for attention and funding.

These factors combine to create a challenging political context for higher education policy making in the years immediately ahead—when it should be ascending in terms of political priority, higher education instead risks getting "voted off the island." This paper aims to anatomize the challenges, explore their interactions, and sort out potential implications for setting policy priorities.

38

THE POLITICAL CONTEXT

The Transformed Presidency

On Sunday, September 16, four days after the World Trade Center events, *The New York Times* ran a story on the front page carrying the headline, "In Four Days, a National Crisis Changes Bush's Presidency" (Sanger and Van Natta, 2001). The story opened as follows:

"President Bush was sitting in a second grade classroom in Sarasota, Fla., on Tuesday morning, his eyes and his smile fixed on 7-year-olds showing off their reading skills. But his mind was clearly fixed on the news he had heard just moments before: a passenger jet had crashed into one of the World Trade Center towers.

At 9:05 a.m., the White House chief of staff, Andrew H. Card Jr., stepped into the classroom and whispered into the president's right ear, 'A second plane hit the other tower, and America's under attack.'...

In the course of the next four days, George W. Bush was transformed into a president at the helm of a White House, and a nation, in crisis (p. 1)."

The events described are significant not only because of what happened to redirect President Bush's attention and priorities, but also because of where he was sitting when that redirection occurred. Until September 11, President Bush had focused his energies largely on two priorities—tax cuts and education. As of September 11, however, Bush was forced to exit the symbolic—and some would argue, optional—role of a president concerned with education and assume the mandatory duties of commander in chief of a nation under attack.

The Education President—Almost

From the day he assumed office, George W. Bush seemed determined to avenge the failed moniker of his father, the putative "education president," whose record on education William Clinton parodied to great advantage as he mapped out the most ambitious federal education agenda in history. In a speech to the National Urban League delivered at a key moment in the congressional debate over reauthorization of the Elementary and Secondary Education Act in the summer of 2001, the younger Bush stressed that: "Education is a local responsibility; yet improving our schools is a national goal. And all of us must do our part (Bush, 2001e)." More sweeping still, "The progress of our economy and the future of our children starts [sic] in the classroom. And that's why education must be our nation's highest priority" (Bush, 2001d).

Many would argue that even before September 11 education was at best this President Bush's *second* priority—some distance behind the $1.35 trillion tax cut, passed in June 2001, as the last major act of a Congress under full Republican control.

Many would argue that even before September 11 education was at best this President Bush's *second* priority—some distance behind the $1.35 trillion tax cut, passed in June 2001, as the last major act of a Congress under full Republican control. Without question, though, education has been an important focus of President Bush's time, attention, and political capital.

Bush's first budget, submitted in April 2001, called for increases in the Department of Education budget exceeding those for any federal agency (Bush, 2001b).[1] This was a far cry from the 1995 call of former Speaker of the House Newt Gingrich to eliminate the department altogether. And the

39

president spent a great deal of time before September 11 squeezed into tiny little desks in schoolrooms across the country—in St. Louis, Missouri; Columbus, Ohio; Townsend, Tennessee; and Albuquerque, New Mexico—working to conclude the reauthorization of the Elementary and Secondary Education Act (the No Child Left Behind Act of 2001), complete with federally mandated annual tests in grades 3–8. Again, a far cry from the once-unrelieved insistence on "local control."

In considering President Bush's emphasis on education, it is important to note that his focus—mirroring public and political concern—is overwhelmingly on K–12 education and basic issues of quality in American public schools. Though higher education benefits in important ways from education as a generic priority, for reasons outlined below, higher education's priorities also suffer in important ways from the dominance of K–12 concerns.

The effects of September 11 were manifest swiftly and decisively in the realm of public opinion. Surveys conducted the week following the attacks found a "total reversal in how much people say they trust the government 'to do what is right.'"

The Education Agenda after September 11

It is far too early to assess the extent or durability of September 11's impact on domains of domestic policy making unrelated to the security environment and immediate economic concerns. But, whatever its long-term effects, September 11 reframed in a morning the Bush presidency and—in a profound even if ultimately short-lived sense—changed the context in which political, legislative, and budget priorities are set at the federal level.

The effects of September 11 were manifest swiftly and decisively in the realm of public opinion. Surveys conducted the week following the attacks found a "total reversal in how much people say they trust the government 'to do what is right'" (McInturff, 2001).[2] Confidence in government reached a 35-year high, returning to levels not seen since the Vietnam War (McInturff, 2001).

At the same time, public opinion research showed a dramatic drop in consumer confidence beginning shortly after the attack, with a surge of people saying the economy was in recession (McInturff, 2001). This sentiment was later confirmed when the National Bureau of Economic Research (NBER) Business Cycle Dating Committee officially declared the economy in recession in November 2001 (Business Cycle Dating Committee, 2001). The NBER report declared that a peak in business activity occurred in March 2001, marking the end of a cycle of expansion and the beginning of a recession. In short, the events of September 11 appear to have hastened and deepened negative economic trends already in progress.

For education—as for all other domestic policy areas other than security and the economy—these realities mean diminishing priority and shrinking resources. A Fox News poll conducted the week after the attacks asked people an open-ended question about the two most important issues for government to address. The public's response focused overwhelmingly on two issues: terrorism and the economy. The last time an open-ended question was so clearly confined to two issues was in 1982,

when, in the wake of double-digit unemployment, Americans focused on unemployment and Social Security as the critical issues.[3] Significantly, however, although education—like health care, social security, and Medicare and Medicaid—dropped dramatically in public concern after September 11, it remains the number one domestic policy issue cited after terrorism and the economy (McInturff, 2001).[4]

ECONOMIC AND BUDGETARY REALITIES

Notwithstanding education's continued *relative* priority as a political and policy concern, it faces increased competition for significantly shrinking resources. The proven mechanism for promoting access to higher education—financial aid in the form of grants—comes out of the discretionary side of the federal budget. For a long time, the discretionary budget has been under pressure from growing entitlements, and this situation will only get worse as the nation ages. Thus even in the booming economy of the last decade, discretionary spending on federal financial aid did not grow significantly.

More immediate economic trends promise to cause further pressure on domestic discretionary spending. Even before the events of September 11, the stalling economy was beginning to cause a decline in federal revenues, and the $1.35 trillion tax cut passed in June 2001 shrank the pie even further. As has been widely noted, even the whopping price tag of $1.35 trillion understates significantly the actual cost of the tax cut package. Not-so-subtle budget alchemy was employed to keep the tax package within prescribed budgetary limits.[5] Under the circumstances, it was not altogether surprising when the Congressional Budget Office released revised budget estimates in August 2001, projecting a seriously diminished budget surplus.

In a speech to the National Press Club on November 28, 2001, Mitch Daniels, director of the Office of Management and Budget, underscored the challenges facing the federal budget for the foreseeable future. Noting that "we have, within a very short time, experienced a costly convergence of factors that has led to a dramatic shift in both our near- and long-term fiscal prospects," Daniels provided the following analysis:

"The converging factors are: the recession, the newly necessary spending—imperative spending to deal with the two new threats—the two new needs to defeat terrorism abroad and to defend our homeland. There also have been, coincident with this, new estimates of long-term growth that are somewhat lower than those that all economists, ours, others in the government, and those in the private sector, agreed on just a few short months ago … And this has profound effects, when compounded out over time on the amount of money that we can expect to have available in the federal treasury (Daniels, 2001)."

Adding these factors together, Daniels noted that it was "regrettably" his conclusion that the federal budget would likely remain in deficit until fiscal year 2005. Daniels went on to stress that these budget constraints would inevitably require difficult trade-offs. He noted, for example, that between 1939 and 1944 domestic spending was cut by 22 percent, and by 37 percent between 1942 and 1944 alone. During the Korean War, nondefense spending dropped in one year, from 1950 to 1951, by one-fourth.

President Bush's first post-September 11 budget confirmed these expectations. Cast as a wartime agenda designed to battle terrorism abroad and keep Americans safe at home, the $2.13 trillion fiscal 2003 budget called for the largest increase in defense spending since the Reagan era ($38.3 billion in new spending) and $18 billion in new funds for domestic security, nearly doubling existing expenditures. In addition, the budget called for an additional $591 billion in tax cuts beyond the $1.35 trillion enacted in June 2001. The administration proposed to pay for these increases by deficit spending and severe constraints on domestic discretionary spending. Increases in nondefense discretionary spending would be limited to 2 percent in categories outside defense and domestic security (Stevenson, 2002).

Given these constraints, education fared comparatively well in the president's plan. While budgets in six of 14 major cabinet departments were frozen or reduced, the Department of Education was slated for an increase of $1.8 billion, or 3.7 percent, to $50.3 billion. Higher education's core student financial aid programs, however, were frozen, with no increase in the maximum Pell grant and level funding in College Work-Study, Supplemental Educational Opportunity Grants (SEOG), and Perkins loans.

Federal budget pressures mirror and amplify economic forces that are squeezing higher education—both public systems and private institutions—in fundamental ways. The faltering economy has brought a decline in state revenues, which in turn decreases state support for higher education. Each week brings new stories of sharp tuition rises (University of Minnesota, 12 percent; University of Tennessee, 13 percent; Clemson, 25 percent), building projects deferred or suspended, and professorships going unfilled (Steinberg, 2001). As noted earlier, these economic effects come at a time when the pressures on public systems of higher education, in particular, are large and growing, given significant increases in the number of 18-to-24-year-olds over the next 15 years.

Higher education faces competition not only from domestic priorities other than education, but also from the emphasis within the domain of education on the K–12 agenda.

Private higher education institutions face similar pressures, as all revenue sources—endowment returns, gifts, and ability (and willingness) of parents to pay the premium for private higher education—are codetermined by the same economic forces. Thus a downturn in the economy affects the operating budgets of even the best-endowed private colleges and universities in fundamental ways. These institutions, like their public counterparts, will face serious pressure to raise tuition.

Because the political system, reflecting public opinion, is deeply skeptical about the cost of higher education, the net result of rising tuition is to render higher education politically more suspect at precisely the time that competition for domestic federal resources will be significantly more intense (Spencer, 1999, pp. 114–115). In other words, as parents, students, and institutions need more government support to compensate for shrinking resources from states and private sources, federal politicians and policy makers are likely to be preoccupied with issues of cost rather than financial aid.

HIGHER EDUCATION IN A K–12 WORLD

Higher education faces competition not only from domestic priorities other than education, but also from the emphasis within the domain of education on the K–12 agenda. Note where President Bush was to be found when he learned of the World Trade Tower calamity. Not in the White House, ready to be hustled to the Situation Room, but parked in a second grade classroom in Sarasota, Florida, endeavoring to increase pressure for passage of the reauthorization of the Elementary and Secondary Education Act, then bottled up in a contentious House-Senate conference committee.

To be sure, higher education has enjoyed a beneficial coattail effect from the public preoccupation with the problems facing our schools. It is K–12 issues that have overwhelmingly driven public concern, but because "education" has achieved sacred cow status, politicians have been loath to cut education funding at any level. Thus traditional higher education programs have been protected and enjoyed moderate increases since 1995, and funding for Pell grants has more than doubled in the last five

years (Burd, 2002). Even though the significant new money for higher education has been directed to tax benefits (the Hope Scholarship and Lifelong Learning Tax Credits in the Taxpayer Relief Act of 1997), these new funds have been accompanied by increases in traditional student aid programs as well.

The Attention Problem

Although higher education has been a collateral beneficiary of strong public concern with the state of our nation's public school systems, the overwhelming emphasis on K–12 issues has serious implications for higher education. The current secretary of education is a former school superintendent, and the position of assistant secretary for postsecondary education remained unfilled throughout Bush's first year (Paige, 2001). Notwithstanding significant rhetorical attention to the Pell grant program, President Bush's first budget requested a mere $100 increase in the maximum grant, and the 2003 budget called for level funding of all the key financial aid programs: work-study, SEOG, and Perkins loans. The Leveraging Educational Assistance Partnerships (LEAP) program, which matches each dollar states commit to need-based aid, was eliminated altogether under the 2003 budget (Burd, 2002).

People talk about the "attention" economy—with today's overload of information in all media it is difficult for any given message or product to get through the noise to claim the attention of a given customer. Higher education faces similar obstacles in the political economy. A Senate Democratic press conference in early August—the day after President Bush gave an important speech addressing issues in the then-pending elementary-secondary legislation — illustrates the point:

QUESTION: Senator Daschle, there's been a lot of talk that, with the President's education package, there still isn't time for higher education legislation. Do you see any time this session to take anything up on the floor?

SEN. DASCHLE: Well, I would defer to Senator Dodd. He has been one of *the* experts on education, and let me ask for his comment on that.

SEN. DODD: Well, we've made good progress on the Elementary and Secondary Education Act in the conference. Yesterday, in fact, a number of provisions were resolved between the House and the Senate, and the committee staffs are going to work the entire month of August on some of the thornier questions between the two bills ...

But I'd be more optimistic about having some time to consider higher education issues in that we're not looking at the kind—at least the mood of the conference yesterday was extremely upbeat and extremely positive and extremely cooperative. The president's speech yesterday [on the Elementary and Secondary Education Act] before the Urban League was a very positive statement, I think, on accountability standards [in K–12], the testing and so forth, looking—to paraphrase his line, it's not to set tests or standards that are so high that no one can pass them—we saw as a very welcome indication. His remarks that he knows there's no real need for increased spending in this area [i.e., K–12 testing] were very constructive statements to make in those remarks.

QUESTION: So there's still a good likelihood of higher education as well?

SEN. DODD: Hm?

QUESTION: So there still is a good likelihood of higher education legislation as well?

SEN. DODD: Well, I don't want to—obviously, Senator Kennedy would be the person to talk directly about that (Federal News Service, 2001).

The Leakage Problem

Even when higher education succeeds in getting the attention of the public and policy makers, it risks not getting the type of attention it needs. As illustrated by the rather amusing exchange above, the same political leaders responsible for our federal higher education policy are preoccupied with K–12 concerns, creating not only the problem of attention, but also of carryover. The policy

concerns in elementary and secondary education—quality and accountability—are emphatically not those that have guided the federal approach to higher education since World War II.

In the domain of higher education, the federal government has for the last half century defined its role in narrow, instrumental terms at the margin, leaving operating responsibility and issues of curriculum and quality to states and private boards of trustees. Until the 1990s, when Congress adopted large-scale tax measures directed at education, we chose to fund individual students through mechanisms that rely on the judgment of higher education to trigger the flow of federal funds. A given student's access to various types of grants and loans—SEOG, Perkins loans, work-study, subsidized and unsubsidized loans—depends on the relationship between eligibility criteria at the federal level and costs, packaging practices, and availability of various funds at the institutional level. Thus federal financial aid funds enter the higher education system in a mechanistic fashion, with important value judgments—such as the kind of education sought by a given individual and the curriculum and cost structure mounted by a given institution—left to other actors.

The federal role in K–12 education is quite different. Public agencies have full operating responsibility for elementary and secondary education, but schooling has historically been quintessentially the subject of "local control." As the problems with public education have intruded ever more insistently into public consciousness, however, federal policy makers have abandoned their reticence about inserting themselves in this domain. When they do, they concern themselves not with cost and access as in higher education, but with issues that go to the core of the educational experience—the quality of instruction and the academic progress of students.

For large segments of the population, our public schools have failed in their basic educational mission. President Bush expressed the problem as follows in the No Child Left Behind legislation that he sent to the Hill on his second weekday in office:

"Today, nearly 70 percent of inner-city fourth graders are unable to read at a basic level on national reading tests. Our high school seniors trail students in Cyprus and South Africa on international math tests. And nearly a third of our college freshman find they must take a remedial course before they are able to even begin regular college level courses.

Although education is primarily a state and local responsibility, the federal government is partly at fault for tolerating these abysmal results. The federal government currently does not do enough to reward success and sanction failure in our education system (Bush, 2001c, p. 2)."

Bush's characterization of the problem doubtless has merit. But in public education the issues are complex, and the federal response, in particular, is difficult to fashion. The resulting policy is often diffuse and comprised more of symbolism and bluster than coherent policy content.

Because the federal government does not, in fact, have its hands on the reins of the K–12 educational enterprise, a fundamental problem that goes to the essence of how teachers teach and students learn is dealt with, in federal policy making, in the language of accountability. What we cannot fix, we can at least *count*, or measure. President Bush again:

"For nearly 40 years, our federal government has tried to improve education with money alone. We invested $158 billion in Title I programs, with great intentions and no measurable result. We've been pumping gas into a flooded engine. Just as faith without works is dead, money without reform is fruitless.

Yet, today, after decades of frustration, we're on the verge of dramatic reform. Schools must have the resources they need, and I support more spending. Local folks must be in charge of local schools, because they're closest to the children and their challenges. But most of all, we need true accountability, the centerpiece of reform. Consequences for school officials must be determined by proven results for children. Those in authority must show responsibility. The purpose of education is, after all, not

jobs for adults, it's learning for students (Bush, 2001e)."

Embodying this focus on accountability, the president asked Congress to pass legislation that would provide for, among other things, annual testing in reading and math in grades 3 through 8 and funding correlated to performance on the tests. Under the president's plan, federal funds would reward states and schools that improve achievement, and certain funds would be withdrawn from states that permit student performance to decline (Bush, 2001a).

In the domain of education, characterized historically at the federal level by circumspection and restraint, policy makers now seem content to reach into the heart of the enterprise in the name of ensuring quality and achievement....

For higher education, the implications of this kind of approach are potentially significant. The *U.S. Department of Education Strategic Plan, 2002–2005*, released in March 2002, provides a striking example of the leakage problem. Though it purports to encompass education at all levels, its cover page carries President Bush's trademark K–12 promise, "In this great land called America, no child will be left behind." More significant, the six goals that comprise the plan reflect overwhelmingly the K–12 emphasis on student achievement, quality, and accountability. Even Goal Five—the one goal actually directed at higher education—is framed in terms that reflect K–12 concerns. Titled "Enhance the *Quality Of* [italics added] and Access to Higher Education," the goal, and the means outlined thereunder, elaborate accountability measures at great length, while failing even to mention the core function of the federal government in higher education—providing funds for student aid (U.S. Department of Education, 2002, pp. 64–77).

Responding to an advance release of the Department of Education's plan, the American Council on Education (ACE) expressed alarm at the notion that the department would assume for itself a direct role in enhancing the quality of institutions of higher education, as distinct from enhancing *access to* high-quality postsecondary education. Noting that the department's approach seemed to imply a "significant change in the relationship between colleges and the federal government," the letter offers a textbook account of the problem of leakage: "[W]e believe that the Department of Education does not appropriately distinguish between the federal role in supporting K–12 and postsecondary education. These are two very different policy environments with respect to funding, accountability, and governance" (Hartle, 2002).

Notwithstanding the penchant of higher education associations to mount rabid defenses of the status quo, the response of the ACE to the department's strategic plan reflects important values. In the domain of education, characterized historically at the federal level by circumspection and restraint, policy makers now seem content to reach into the heart of the enterprise in the name of ensuring quality and achievement, whether or not they have effective means to do so.

IMPLICATIONS FOR HIGHER EDUCATION POLICYMAKING

Teasing out the implications of these broad contextual factors for specific policy agendas is inevitably a speculative exercise, made more so by the fact that there is no broad agreement on how higher education's core policy goals

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should be framed as we begin to lay the groundwork for reauthorization. If played out in traditional terms, the discussion would doubtless center on a debate between, on one hand, advocates of a single-minded focus on the traditional goal of access for low-income students, and, on the other hand, partisans of a broader agenda that emphasizes academic preparation, incentives for performance and persistence to degree once in college, and national goals such as training in specific subject areas and promoting public service.

In the current political environment, however, sound higher education policy making requires both more focus and greater breadth than suggested above. Breadth stems not from multiplying policy goals within the Higher Education Act, but from recognizing that the act and its reauthorization are one piece of a larger political context involving other forms of financial aid (such as tax benefits), interactions with K–12 education, and political forces subordinating domestic priorities across the board. At the same time, successful policy making requires the determined pursuit of finite and focused goals—such as the unfulfilled yet achievable goal of removing financial barriers to access.

I would suggest that a framework combining strategic focus and broad peripheral vision can be achieved if we approach policy making with the following values in mind: realism, research, reaffirmation of the access commitment, meaningful K–12 linkages, and caution with respect to programmatic coordination.

Realism

The inexorable shift in the 1980s and 1990s away from the goal of access for low-income students to the middle-class concern for affordability has been well documented (Spencer, 1999, pp. 110–114). The Taxpayer Relief Act of 1997 established the Hope Scholarship and Lifetime Learning Tax Credits to cover education expenses at a price tag of $12–$15 billion annually once the law is fully phased in. The Economic Growth and Tax Relief Reconciliation Act of 2001 added further tax benefits to pay for education (White House, 2001). By contrast, federal grant programs provided under $9 billion per year as of 2000 (College Board, 2001; Office of Management and Budget, 2001).

Although one can lament the expense and inefficiency of these tax measures, not to mention the opportunity costs for other, proven forms of federal student aid, the pressures that produced these significant new expenditures are likely in the short term to intensify, not diminish. In the aftermath of September 11 and its impact on an already-faltering economy, middle-class parents, perpetually concerned about the cost of college, can only be expected to become more anxious as their own economic circumstances worsen and tuitions once again rise sharply. Furthermore, tax breaks, once enacted, are virtually impossible to repeal.

Realism would suggest, therefore, that we begin this reauthorization cycle with a recognition that the federal government provides, and will continue to provide, financial support for college in various forms across a spectrum of incomes and—once student and parent loans are factored in—across multiple generations. Before deciding on policy priorities, even within the four corners of the Higher Education Act, therefore, it is essential to understand who now receives what amounts of aid and subsidy from which sources, and how these various sources interact in terms of incentives.

Research

The tax benefits, beginning with the Hope Scholarship and Lifetime Learning Tax Credits enacted in 1997 and

only now becoming fully phased in, are new enough that their operation on the ground has not yet been analyzed systematically. Although the potential impact of the tax credits has been outlined by scholars and commentators (see, e.g., Kane, 1999, pp. 41–50), their actual use and effects are not yet fully understood.

Starting from the premise that these various mechanisms will be with us for the foreseeable future, framing a research agenda to analyze the internal incentive effects of the tax and student aid systems, as well as the interactions between them, deserves immediate priority. Because middle-class concerns have an inherent advantage in the political process and funding can be expected to remain tight, sound research will be critical in directing scarce resources.

At the same time, it is important to recognize that high-quality research capable of providing comprehensive and accurate data across the complex structure of higher education financing cannot be achieved overnight to meet the demands of the legislative cycle. As higher education economist Thomas Kane has suggested, it is important to distinguish those areas that will admit of analysis in the short term from those that will require a longer time horizon—and commit to both. Otherwise policy makers will never be in a position to make well-grounded policy changes.

REAFFIRMATION OF ACCESS COMMITMENT

Demographic realities over the next 15 years—a large increase in college-age students, a large majority of whom will require financial aid—underscore the need to reaffirm the commitment to access for low-income students as a bedrock goal of federal higher education policy. This imperative has recently been restated and strongly urged in a report by the Advisory Committee on Student Financial Assistance, established by Congress to advise on student aid issues. *Access Denied: Restoring the Nation's Commitment to Equal Educational Opportunity* argues that much of the inequity in participation, persistence, and degree completion throughout the educational pipeline can be explained in financial terms alone. According to the report, unmet financial need—the gap between a student's total educational expenses and available funds from all sources—creates for many students a significant barrier to gaining entrance to, staying in, and completing their chosen courses of study within our institutions of higher education (Advisory Committee, 2001).

By this view, the original aim of the Higher Education Act of 1965—to remove financial barriers to higher education—was an important and achievable goal that remains unfulfilled. The federal government does not and should not play a broad, operational role in higher education, and a single-minded focus on ensuring access is an appropriate, enabling role for the federal government at the margin. Furthermore, the structure enacted in the original legislation—a system of portable financial aid composed of grants, loans, and work-study—has been demonstrably effective in promoting access and in supporting a dynamic system of higher education that fosters individual aspiration and institutional diversity.

This view—that it makes little sense within the context of the Higher Education Act to expand policy goals and diffuse political energy when gains are far more likely to be made through a highly focused effort—has a great deal to recommend it. Given the renewed urgency and relative influence of middle-class concerns and the expense and near-permanence of tax benefits, however, it may appear futile to argue for a renewed commitment to access. On the other hand, as noted above, the events of September 11 had an immediate (though one does not yet know how durable) effect on the view of the public toward government. For the first time since the early Johnson years, confidence in government has risen dramatically, and the public seems more open than it has in recent years to the notion that government can and should compensate for gaps in what the private sector, left entirely to its own devices, will deliver. Add to this the post–September 11 outpouring of support for public

service and community values—witness the reverence for police and firefighters, the most visible public servants—and there is some reason for optimism that policy makers and the public may begin to think in a more disciplined and other-directed way about the role government should play across a broad range of areas.

Of course it is one thing to assert a value, and quite another to fund it. It will be enormously difficult to materially increase grant funding for higher education. Pressures on domestic discretionary spending, already large and growing because of demographic forces and entitlement obligations set in motion long ago, have increased dramatically because of the economic downturn and spending to meet military and homeland security needs. Arguably, the main source of optimism in this area is precisely the starkness of the trade-offs that will have to be made across the federal budget. If progress is made, as suggested above, in articulating the importance of the access goal with clarity and focus, traditional financial aid programs may compete relatively better for scarce resources than for a portion of larger, more diffuse expenditures.

MEANINGFUL K–12 LINKAGES

Because of the dominance of K–12 concerns within the politics of education, it would be wise for higher education advocates to develop meaningful policy proposals that will link the two domains in areas of central, common concern. From the point of view of higher education, these would be measures that will, on a systematic basis, produce students actually prepared to do the work and succeed at the college level. From the K–12 perspective, such results would occur if higher education were to contribute in meaningful ways to the enormously difficult task of improving public education. The point here is not to pander to the current preoccupation of the political system with K–12 concerns, but rather to place those concerns in a context that makes sense in terms of *higher education* policy.

That context needs to extend beyond the traditional focus of reauthorization on specific measures that augment the financial aid system by offering mentoring, academic support, and other tailored assistance to disadvantaged students who need substantive as well as financial assistance to prepare for, and then succeed in, college. The TRIO programs, included in the Higher Education Act of 1965, were an early and successful example of such efforts, and President Clinton's GEAR UP program, which helps groups of middle school students prepare for college, is a more recent addition. These programs have been enormously successful for the students they reach, but they are expensive on a per-pupil basis, and they have never been scaled up to reach the many students underserved by our K–12 system. In a highly constrained budgetary environment, it is unlikely that we will expand meaningfully programs that entail intensive work with small groups of students.

Instead, higher education should look to those points of intersection with K–12 education that can affect education as a system—namely, enriching the talent pool for and training of teachers and bringing to bear on practice in the classroom the results of education research developed at our universities. This agenda, like tax benefits, plainly extends beyond the four corners of the Higher Education Act, but the federal government clearly has a role to play in this larger domain. In thinking through questions of preparation, persistence, and performance in the context of reauthorization, it is important that we bear this greater framework in mind.

An affirmative agenda linking higher education with school improvement is important not only on the merits, but also as a means of trying to preserve some policy integrity in higher education. As illustrated by the Department of Education Strategic Plan, discussed above, if higher education does not attempt to develop meaningful substantive connections within a framework that properly contextualizes higher education and K–12 concerns, politically expedient and counterproductive measures will inevitably be imposed by others.

48

CAUTION WITH RESPECT TO PROGRAMMATIC COORDINATION

By almost any view, the financial aid structure for higher education—combining resources from multiple sources with multiple, often conflicting, objectives—is overly complex and inefficient. For low-income individuals who may not have the support of college-educated parents or sophisticated guidance counselors, the process of applying for aid can itself be a barrier to college aspiration and entrance. From the point of view of the "system," much of the aid is not well targeted and the interaction of forms of aid with conflicting objectives can result in perverse effects.

The call for simplification and better coordination was a major emphasis in the reauthorization of 1992, which made important progress with the simplified federal form for financial aid. But the larger problem of the interaction of need- and merit-based aid, of traditional financial aid and tax benefits, of student and parent, subsidized and unsubsidized, private and credit card loans has yielded more, not less, complexity in the decade since 1992.

It is thus hard to argue with a desire for better coordination among the many types and sources of student aid. More effective coordination and targeting assumes that funds from a variety of sources—federal, state, and institutional—would be administered such that for a given academically prepared student, financial needs are not over- or under met. It would suggest that we spend less public and institutional money on merit aid not tied to need. And it would mean that we pay attention to students early enough in the educational pipeline to increase the number of students served and the likelihood that a given student will persist with his or her education through high school and completion of a college degree.

As manifestly beneficial as these goals are, there is reason to be cautious with respect to embarking on any agenda that might be considered an overhaul of the student aid system. As noted above, we are currently on a path away from, rather than toward, more targeted aid. Achieving greater coordination would require, therefore, significant policy and programmatic shifts that are potentially dangerous in the absence of a secure funding environment.

Here, it is important to distinguish the coordination and targeting agenda from the research agenda. Sound research that examines the current subsidies to students at different income levels and the incentive effects of different types of aid is critical to intelligent policy making over the next several years. However, achieving analytical clarity should not be conflated with achieving programmatic clarity on the ground. In the current environment, the latter goal is uncertain at best, and dangerous at worst.

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CONCLUSION

The Higher Education Act of 1965 was signed into law in a climate in which the government was understood to have a clear and important role to play. The policy objectives of the legislation were few, its instrumentalities were clean, its partnerships and pipeline mechanisms straightforward. Four decades later, the instrumentalities of the Act remain in place, and they remain effective. But the political and policy making environment for higher education has grown considerably more complex with the introduction of large-scale tax benefits, the preoccupa-

tion with K–12 concerns, and the subordination of all budgetary and policy priorities to questions of national defense and security at home.

As we approach the next reauthorization, sound policy making requires that we focus with clarity and intensity on the central goal of ensuring access to college for talented students regardless of their financial circumstances. At the same time, we need the peripheral vision to take into account the broader political context, which, if managed strategically, is less threatening to core policy values. With luck, higher education will manage to "stay on the island" of domestic policy making, notwithstanding the popularity of rivals for political attention and funding.

Clayton Spencer is associate vice president for higher education policy at Harvard University, and serves as a senior advisor to the president there. She is also a lecturer in the Harvard Graduate School of Education, where she teaches a course on federal higher education policy.

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[1] Bush's budget called for an increase of 11%, to $44.5 billion, for the Department of Education's budget.

[2] Citing *Washington Post*, 2/26/1985–9/27/2001/ Michigan-American National Election Study 1958-1982. This survey shows that since the early 1970s the number of people who trusted government to do what was right always, most of the time, or some of the time was never more than 48%—a mark it hit in the Reagan years—but throughout the 1990s never exceeded 34%. In surveys following September 11, the percent nearly doubled, to 64%.

[3] Fox News Poll, 9/19–20/01, cited in McInturff (2001).

[4] In March 2001, 29% of those surveyed said that education was one of the two most important issues for government to address. On September 19–20, 2001, that proportion had fallen to 12%, twice that of the next highest domestic concern—family values at 6%.

[5] Most of the tax cuts are phased in very slowly—the estate tax repeal, for example, is not fully phased in until 2010; all of the provisions sunset by 2011, and some in 2010, even though it would be an unusual Congress that failed to extend popular tax provisions. Finally, the legislation left out altogether major tax-cut measures—such as the extension of the research and experimentation tax credit—that are virtually certain to be enacted in the near future.

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